

The Advisors Forum Planner

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Prepared For
TY AND LACEY HUNTER

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Prepared by
Jonathan Mintz
WealthCounsel Advisors Forum, LLC
PO Box 8568
Bend, OR 97708
Phone: (800)635-5078
jonathan.mintz@advisorsforum.com

FAMILY INFORMATION

CLIENTS	AGE
Ty Hunter	54
Lacey Hunter	57

CHILDREN	AGE
Joel	18
James	16
Barbara	15
Donna	15

YOUR GOALS AND OBJECTIVES

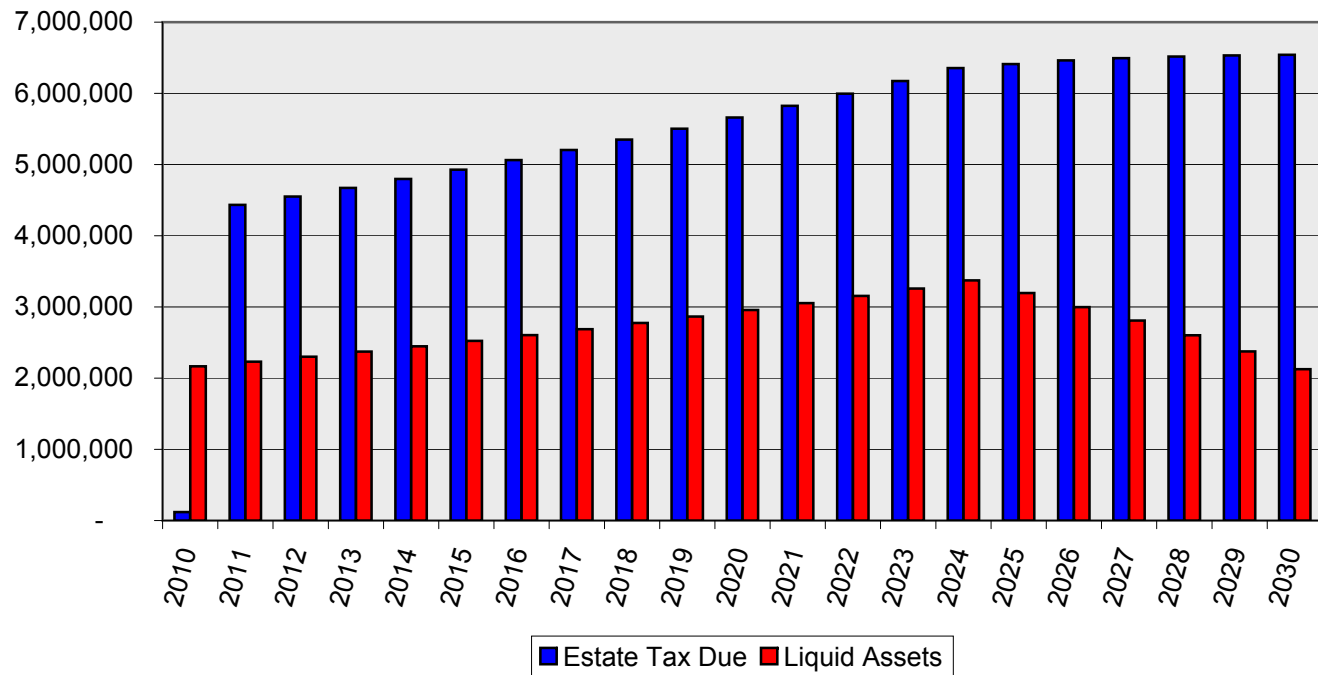
- Ensure that you and your spouse have sufficient assets to maintain your standard of living now and in retirement.
- Maintain maximum control and flexibility during your lifetime.
- Provide for you in the event you become disabled.
- Simplify administration as much as possible upon your death or disability (avoiding probate & guardianship).
- Avoid having your private matters being made public unnecessarily.
- Ensure that the efforts you desire are used to save your life.
- Have your property continue to benefit the survivor after one of you dies.
- If married, protect your assets so that they cannot be lost as a result of remarriage after the death of one of you.
- Ensure that the persons you select in fact become the guardians of your minor children.
- Ensure that your children's or grandchildren's inheritance does not render them ineligible for governmental benefits such as Medicaid.
- Structure the inheritance your children or grandchildren receive from you in such a way that it is protected from any future claims of their spouses or their creditors.
- Protect your children's or grandchildren's inheritance from mismanagement.
- Structure your children's or grandchildren's inheritance in such a way that it installs values and virtues.
- Educate your children and grandchildren.
- Reduce the risk of litigation from heirs who receive less than they think they are entitled to.
- Protect against your estate passing unequally due to the nature of assets you own.
- Provide for your parents if they need financial assistance.
- Avoid unnecessary business expenses or failure due to lack of a business succession plan.
- Reduce risk of claims or litigation resulting from the management and administration of the business.
- Avoid having to sell assets in a "fire sale" in order to create the liquidity needed to pay taxes and expenses.
- Protect your investment assets from loss resulting from frivolous lawsuits.
- Minimize income taxes to the extent possible.
- Avoid or minimize capital gain tax on the sale of assets.
- Eliminate as much estate tax as possible.

YOUR LIQUIDITY

- Goal: Maintain liquidity to meet our estate obligations at death.

Our review shows your projected estate tax due within nine months of the second of you to die versus your projected liquidity over the next 20 years.

Liquid Assets vs. Estate Taxes Projected 20 Years



We believe there are approaches that would help you solve this liquidity crisis.

WHICH OF THE FOLLOWING ASSETS WOULD YOU LIKE YOUR HEIRS TO LIQUIDATE UPON YOUR DEATH?

Assets Available for Liquidation

CLOSELY HELD BUSINESS

Webb Building Supply, Inc (50%)	3,000,000
Double W Assoc (50%)	2,500,000

INVESTMENT REAL ESTATE

30 acres	150,000
Ranch (12.5%)	200,000
Ranch and Hunting Lease (25%)	150,000
Monroe Land (29 acres)	120,000
Fayette Farm (37.5 acres)	325,000
Fayette Farm & Ranch (69 acres)	390,000
Percy Farm (256 acres)	100,000

RESIDENTIAL REAL ESTATE

123 Main St.	400,000
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PERSONAL PROPERTY

Autos	50,000
Household Furnishings	50,000
Tractors, Mower, Farm Equip, ATVs	45,000

Total Illiquid Assets	\$ 7,480,000
Total Liquid Assets in 2010 *	\$ 2,165,837
* Including Life Insurance proceeds	
Total Estate Tax Due in 2010	\$ 119,613

NOTE: Estate taxes are due within 9 months of the 2nd death.

INTRODUCTION TO ILITs

We have prepared this report for you to help you understand the advantage of using life insurance and life insurance trusts in your estate planning. As you will see, implementation of this recommended planning strategy should increase the amount of your assets passing to your heirs by \$1,983,238 if you both were to die today, and by \$1,984,533 if you both were to die in the year 2030.

Life insurance held in a life insurance trust is one of the most efficient estate planning tools available. It requires very little complication after the initial creation and set up. This strategy also has a relatively low cost of administration.

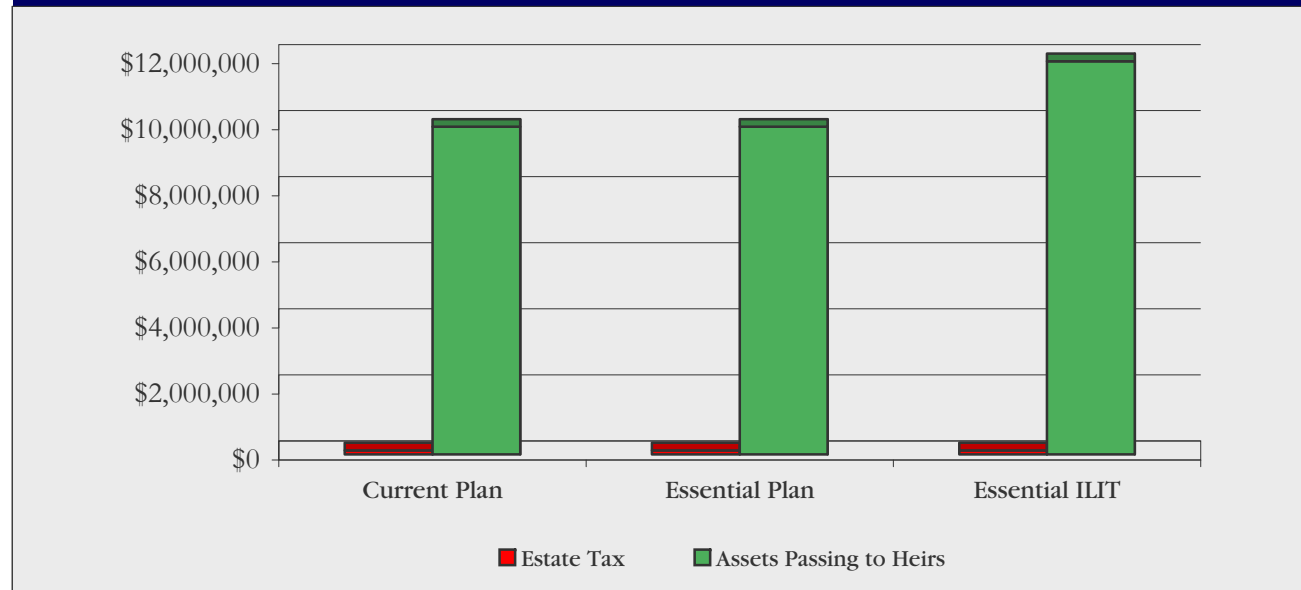
- ∞ You start by creating the Irrevocable Life Insurance Trust. (ILIT)
- ∞ The trustee opens an account for the ILIT.
- ∞ Make gifts of cash each year to the trust sufficient to pay the annual premiums and any maintenance fees.
- ∞ Your trustee sends out notices to the trust beneficiaries. These are commonly known as "Crummey" notices.
- ∞ Upon expiration of the notice period, the Trustee pays the insurance premium.
- ∞ At your death, the insurance death benefits pass to your heirs free of estate and income tax.

COMPARISON OF PLANS TODAY - 2010

	Current Plan	Essential Plan	Benefit of Life Ins
Total Estate	\$ 9,731,047	\$ 9,731,047	\$ 9,714,047
Estate Tax	119,613	119,613	119,613
Assets Passing to Heirs	9,916,238	9,916,238	11,899,476

Increase to Heirs	Current Plan	Essential Plan	Benefit of Life Ins
	\$ -	\$ -	\$ 1,983,238

Comparison

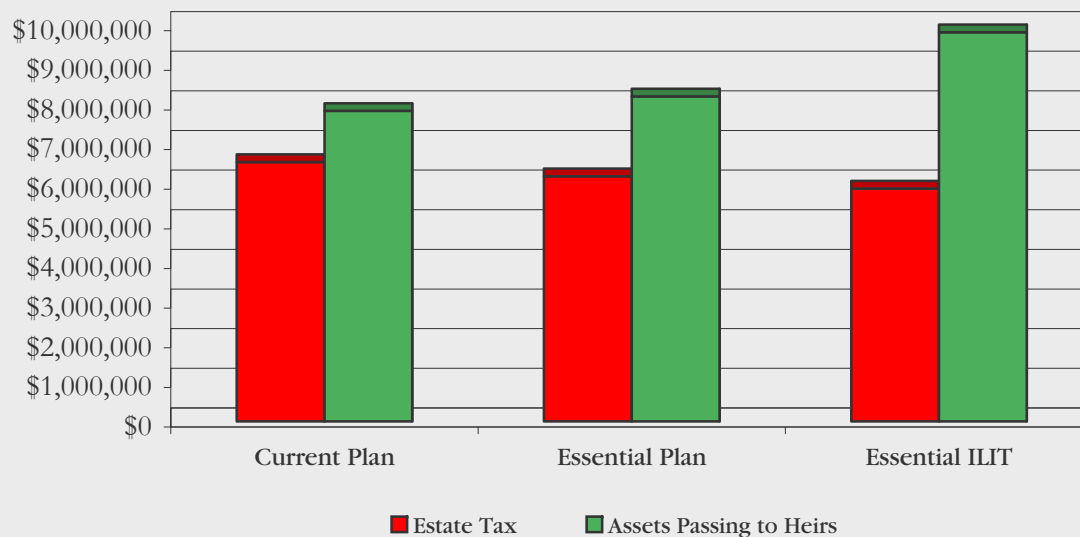


COMPARISON OF PLANS - 2030

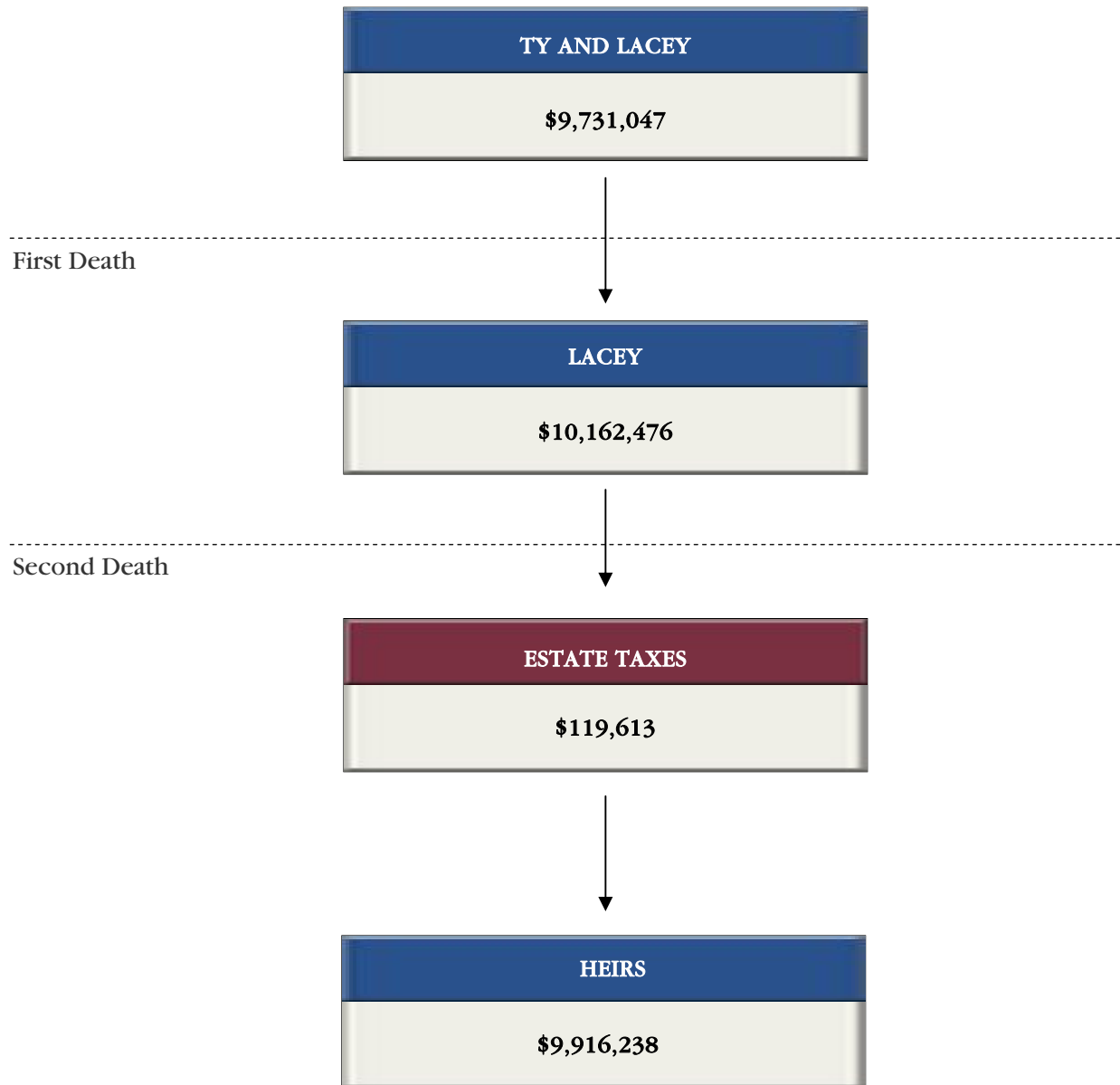
	Current Plan	Essential Plan	Benefit of Life Ins
Total Estate	\$ 14,129,118	\$ 14,129,118	\$ 13,428,661
Estate Tax	6,540,524	6,184,124	5,873,323
Assets Passing to Heirs	7,831,933	8,196,333	9,816,466

Increase to Heirs	Current Plan	Essential Plan	Benefit of Life Ins
	\$ -	\$ 364,400	\$ 1,984,533

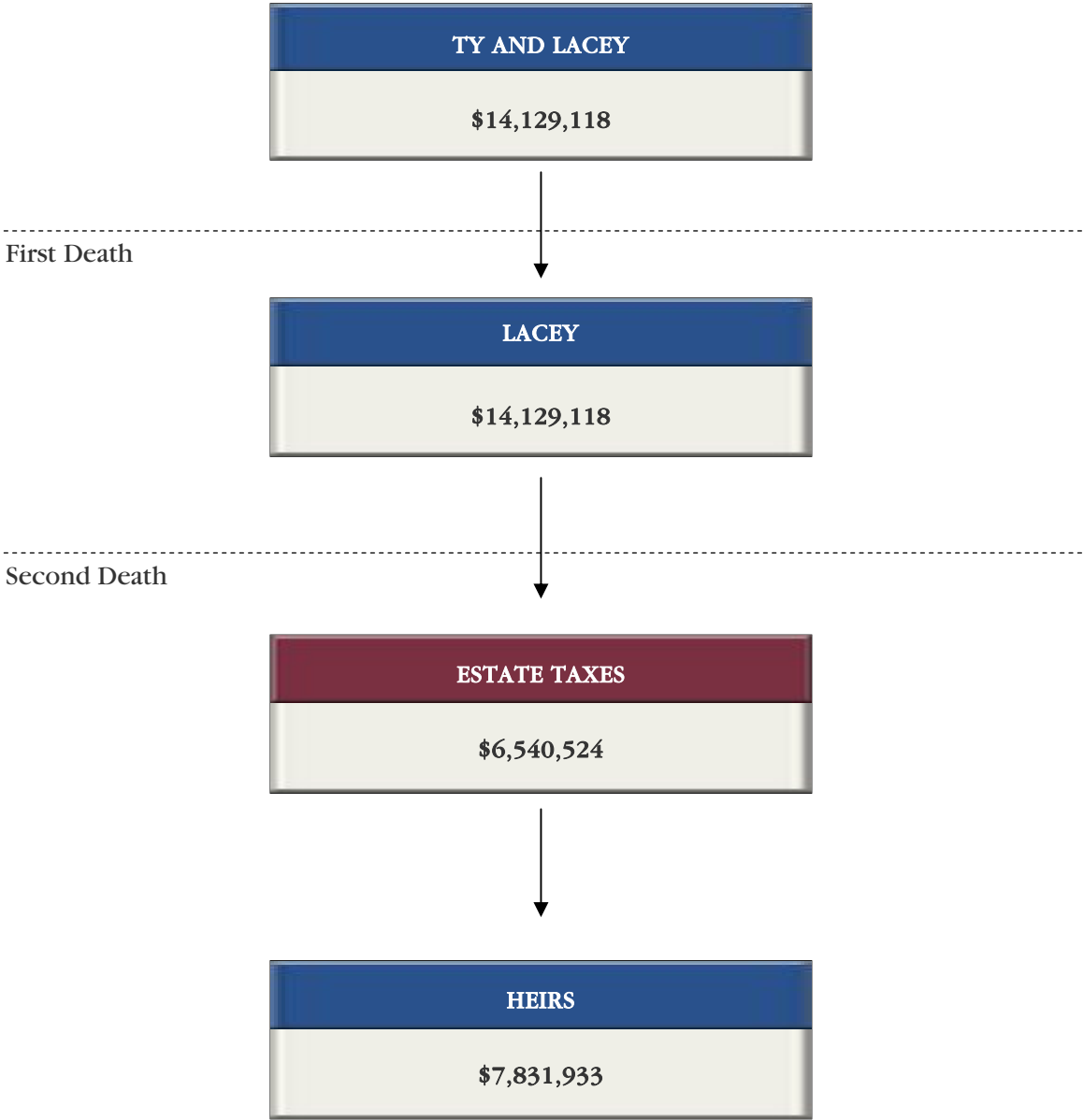
Comparison



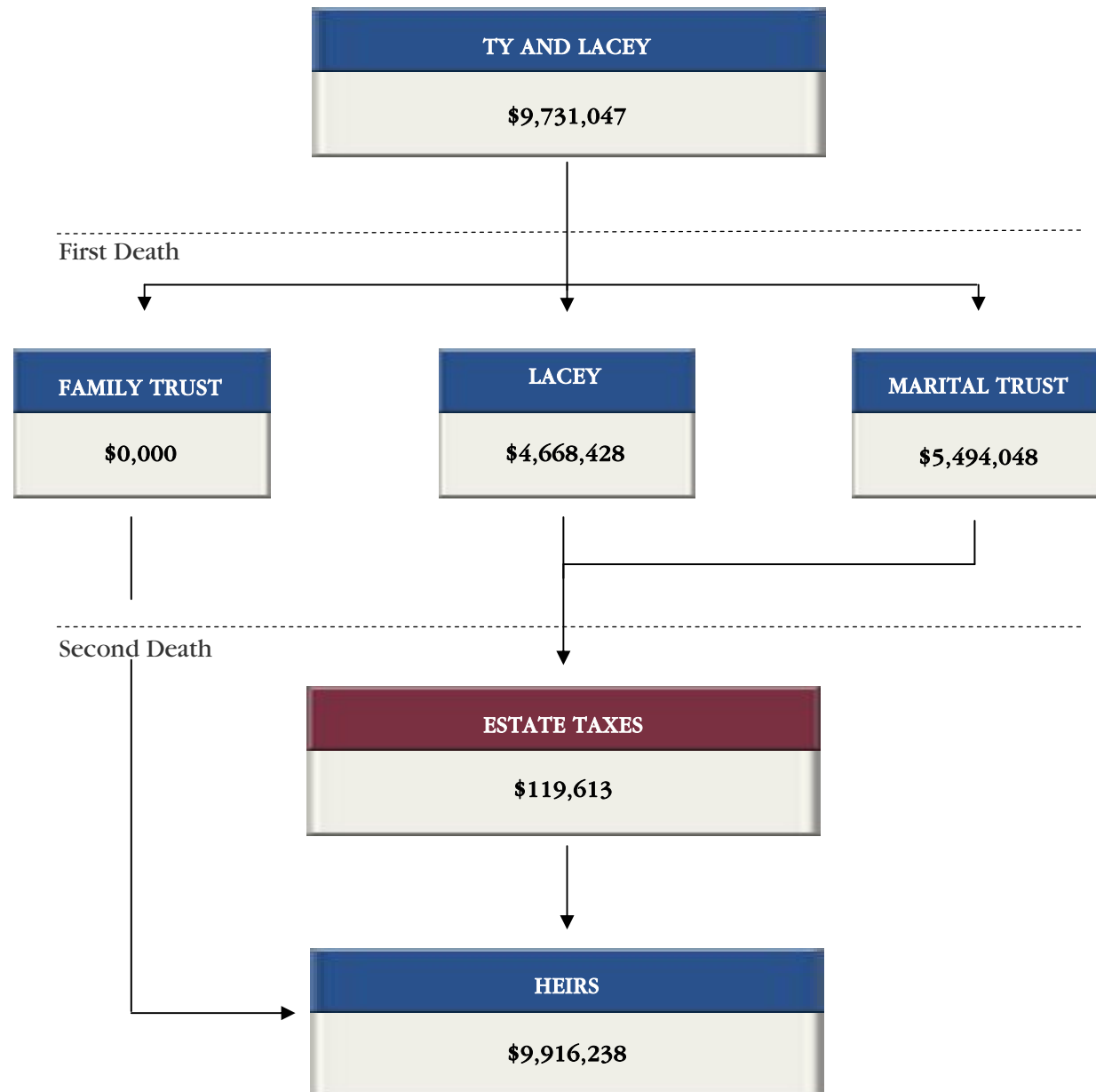
CURRENT PLANNING TODAY - 2010



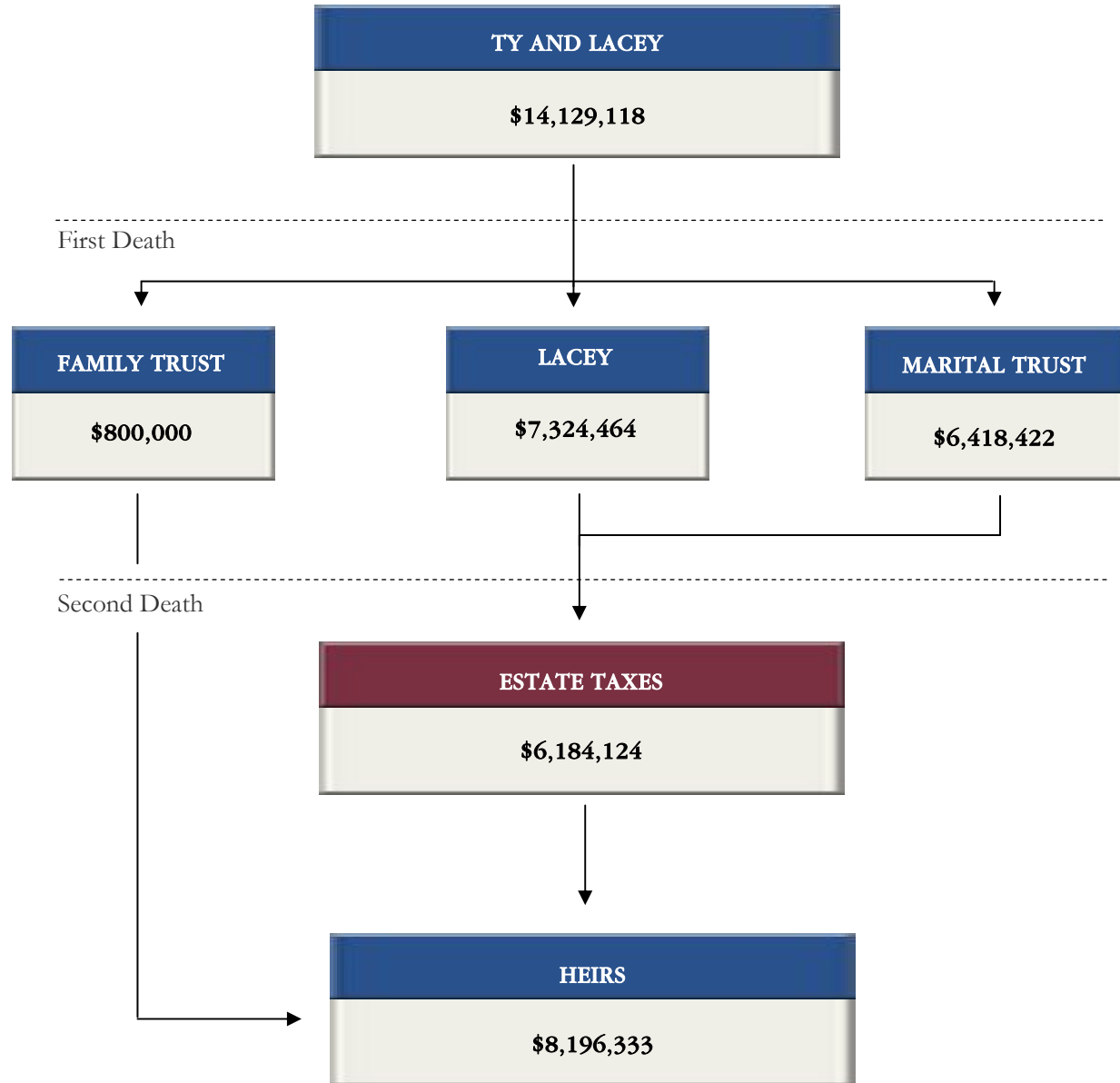
CURRENT PLANNING - 2030



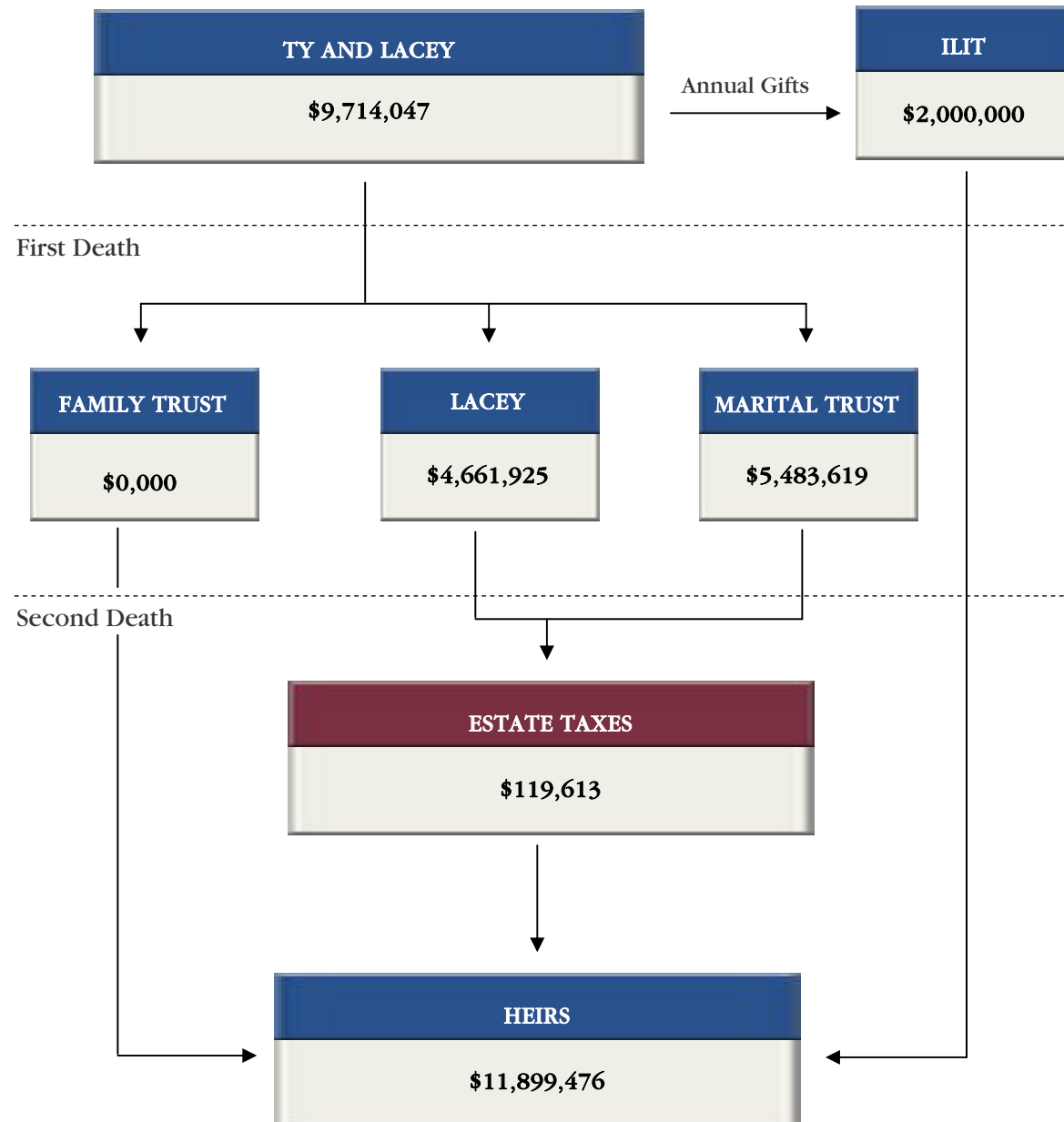
ESSENTIAL PLANNING TODAY - 2010



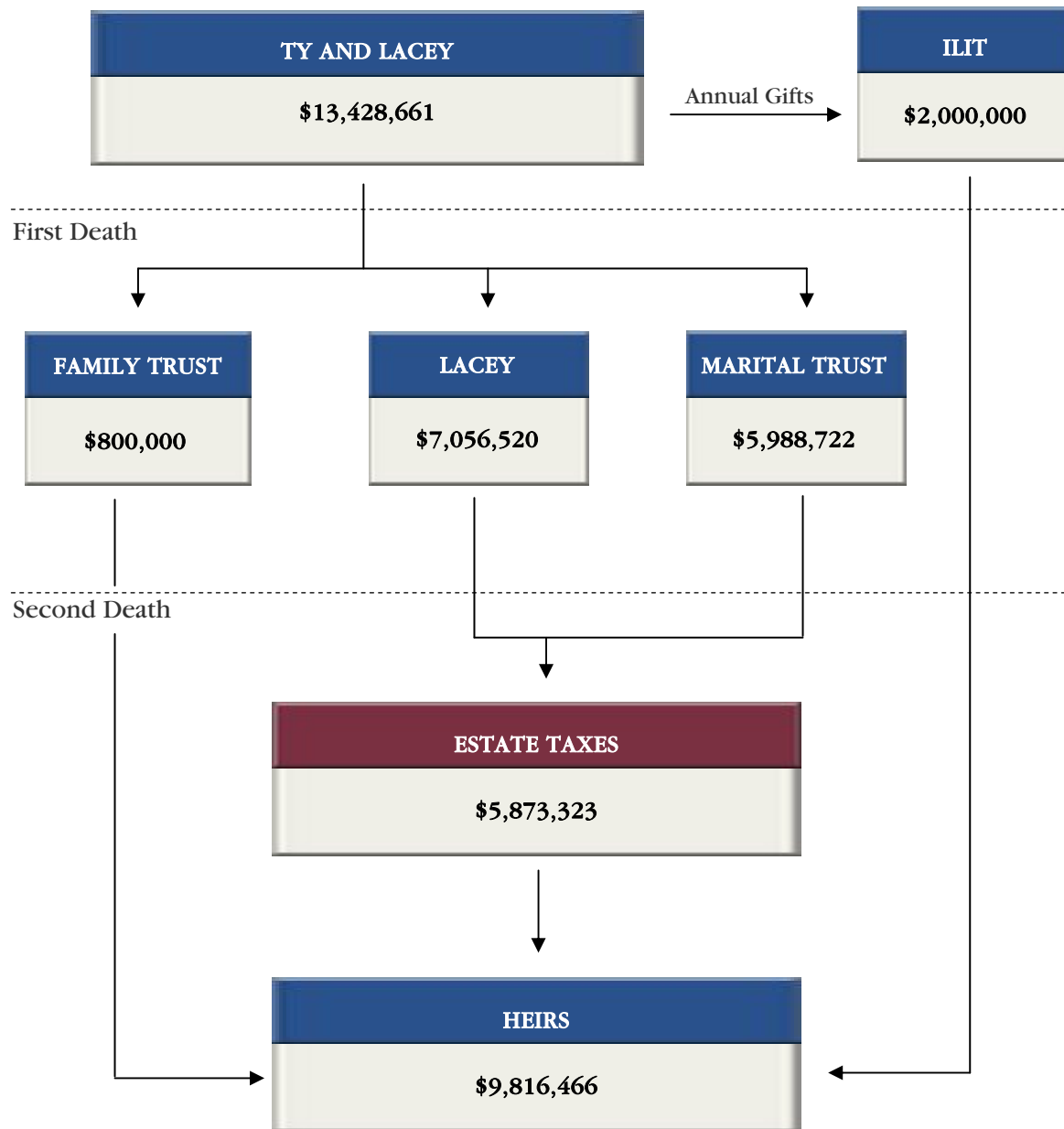
ESSENTIAL PLANNING - 2030



ESSENTIAL PLANNING WITH ILIT - 2010



ESSENTIAL PLANNING WITH ILIT - 2030



POSSIBLE PLANNING STRATEGIES

CREATION OF INDIVIDUAL REVOCABLE LIVING TRUSTS & RELATED ANCILLARY DOCUMENTS

- Individual Revocable Living Trust for you
- Pour Over Wills
- General Durable Powers of Attorney
- Health Care Powers of Attorney
- Living Wills
- Personal Property Memoranda
- Revised beneficiary designations for IRAs, annuities, and life insurance policies to ensure distribution is consistent with overall plan

CREATION OF AN IRREVOCABLE LIFE INSURANCE (WEALTH REPLACEMENT) TRUST

- To hold life insurance
- To provide lifetime asset protection
- To provide estate tax protection at death

CREATION OF A LIFETIME GIFTING PROGRAM

- To significantly reduce estate and generation-skipping transfer taxes
- To provide tax-free gifts to family members
- To provide tax-free gifts to irrevocable trusts

CREATION OF A FAMILY LIMITED LIABILITY COMPANY OR PARTNERSHIP

- To provide asset protection
- To centralize management of assets
- To reduce income taxes

POSSIBLE PLANNING STRATEGIES

(continued)

CREATION OF A QUALIFIED PERSONAL RESIDENCE TRUST

- To transfer your residence, including future appreciation, to your beneficiaries in an asset protected manner
- To maintain control during your lifetime
- To reduce estate taxes

CREATION OF A GRANTOR RETAINED ANNUITY TRUST

- To transfer assets to your beneficiaries in an asset protected manner
- To generate a steady income stream for the trust term
- TO allow you to freeze the value of highly appreciating assets for estate tax purposes

CREATION OF A CHARITABLE REMAINDER TRUST

- To defer immediate capital gain tax on sale of appreciated assets
- To generate a current-year income tax deduction on transferred assets
- To provide a gift to charity at the end of the trust term
- To reduce estate taxes

CREATION OF A CHARITABLE LEAD TRUST

- To provide annual gifts to charity during the trust term
- To reduce or eliminate estate taxes
- To provide for a one-time income tax deduction in certain circumstances

CREATION OF AN IRREVOCABLE GRANTOR TRUST

- To provide leveraged transfers to beneficiaries in an asset protected manner (the leverage occurs by your payment of the trust income tax)
- To provide a vehicle to purchase your assets without incurring income tax
- To reduce estate taxes

POSSIBLE PLANNING STRATEGIES

(continued)

CREATION OF A SPECIAL NEEDS TRUST

- To provide supplemental benefits for a special needs beneficiary
- To allow the special needs beneficiary to maintain governmental benefits, including Supplemental Security Income (SSI), Social Security and Medicaid

CREATION OF A PRIVATE FAMILY FOUNDATION

- To pass value and responsibility to family members
- To make a positive difference in the community
- To save estate and generation-skipping transfer taxes

CREATION OF AN ALASKA COMMUNITY PROPERTY TRUST

- To transfer assets to your beneficiaries in an asset protected manner
- To reduce or eliminate income taxes

PURCHASE OF ADDITIONAL LIFE INSURANCE

- To replace lost income in the event of premature death
- To provide an alternative diversified investment
- To provide for liquidity to pay estate tax or capital gain tax

PURCHASE OF LONG-TERM CARE INSURANCE

- To provide liquidity to pay home health or nursing home care costs
- To ensure that your wealth is transferred to beneficiaries rather than your health care providers

PURCHASE OF AN ANNUITY

- To provide a steady income stream for your life / lives
- To ensure adequate income in retirement

POSSIBLE PLANNING STRATEGIES

(continued)

INVEST IN COLLEGE SAVINGS PLANS (529 PLANS)

- To pay for the higher education of children or grandchildren
- To maintain control over assets during your lifetime
- To reduce estate taxes

PLANNING FOR TAX-QUALIFIED PLANS

- To protect current lifestyle
- To minimize income taxes
- To protect these assets from lawsuits
- To reduce estate and generation-skipping transfer taxes

STAND-ALONE TRUST FOR TAX-QUALIFIED PLANS

- To transfer assets to your beneficiaries in an asset-protected manner
- To defer income tax on tax-qualified plans as long as possible
- To save estate and generation-skipping transfer tax

INHERITOR'S TRUST

- To provide creditor and divorce protection for your own inheritance
- To save estate and generation-skipping transfer tax

STAND-ALONE EDUCATIONAL TRUST

- To maintain control over your assets during your incapacity and after death
- To transfer assets to your beneficiaries in an asset-protected manner

REVOCABLE GIFT TRUST

- To transfer assets to your beneficiaries in an asset-protected manner
- To save estate and generation-skipping transfer tax

POSSIBLE PLANNING STRATEGIES

(continued)

DOMESTIC SELF-SETTLED ASSET PROTECTION TRUST

- To protect your assets from lawsuits
- To transfer assets to your beneficiaries in an asset-protected manner
- To reduce estate and generation-skipping transfer taxes

FAMILY BANK TRUST (LIFETIME BYPASS TRUST)

- To protect your assets from lawsuits
- To transfer assets to your beneficiaries in an asset-protected manner
- To reduce estate and generation-skipping transfer taxes

YOUNG PERSON'S TRUST

- To protect younger beneficiaries from themselves
- To train beneficiaries to become financially responsible
- To provide planning for younger beneficiaries

STAY BONUS

- To ensure that key employees remain in the business after your death
- To preserve the value of the business

REVOCABLE LIVING TRUSTS AND ANCILLARY DOCUMENTS

We will create a fully-funded revocable living trust for each of you which will serve as a will substitute in order to avoid probate at both your deaths. We will also create a general durable power of attorney for each of you, which, with the revocable living trusts, will avoid the need for a guardianship in the event either of you become incapacitated during your lifetime. We would also want to provide living wills and health care powers of attorney for each of you. The living trust, when properly funded, will provide for the probate-free transfer of the assets. The distribution pattern will provide for divorce and lawsuit protected inheritances to your children. In addition, your revocable living trusts will provide a simple mechanism for you to distribute your tangible personal property in accordance with a handwritten memorandum that you may choose to prepare. We will provide you with a form of that memorandum. We will also provide you with a useful tool for preparing memorial instructions. Your revocable trust will also include a provision that is designed to fully utilize both of your applicable credits against the estate tax.

LIFE INSURANCE TRUST
(WEALTH REPLACEMENT TRUST)

[Under [State] law, the cash value of life insurance is not protected from creditor claims.] At death, the death proceeds of life insurance you own are included in your estate for estate tax purposes. [Both of these/This] adverse result[s] can be avoided by transferring the life insurance policy to an irrevocable life insurance trust that would become the owner and beneficiary of the policy. The dispositive provisions of the trust would mirror the provisions of your revocable living trust. While this trust will be irrevocable, an independent trust protector can be granted significant flexibility to modify the terms of the trust to account for unanticipated future developments. If you are concerned about accessing the cash value of the insurance during your lifetime, the trust can be carefully drafted so that the trustee can make loans to you during your lifetime or so that trustee can make distributions to your spouse during your spouse's lifetime. Even with these provisions, the life insurance proceeds will not be included in your estate for estate tax purposes. These trusts can be created by you individually (and typically own an individual policy on your life) or they can be created by you and your spouse jointly (and own a survivorship policy. Whether it is an individual or joint trust will depend upon the specific purposes for the insurance, as is discussed more fully under Life Insurance.

LIFETIME GIFTING PROGRAM

A lifetime gifting program allows you to avoid gift, estate and generation-skipping transfer tax on transferred assets. Under the Internal Revenue Code, you can transfer up to \$13,000 per year, per person, to anyone without incurring gift tax or generation-skipping transfer tax. A married couple can give twice that amount, or \$26,000 per person, per year. With a lifetime giving program, you transfer this amount annually to the individuals of your choice, typically children, grandchildren and other close family members.

For example, if you give \$13,000 per year to two beneficiaries for five years, you will have removed nearly \$1550,000 from your estate for estate tax purposes (assuming these assets would have grown at 6%). After 10 years, you will have removed more than \$365,000 and \$1.5 million after 25 years. Not surprisingly, the amount removed from your estate is increased significantly with each additional \$13,000 beneficiary.

The value of the lifetime giving strategy is substantially enhanced when the transferred assets are discounted in value. Lack of marketability and minority interest valuation discounts on the family limited liability company, established by a competent and experienced appraiser, allow you to leverage the gifts so that larger transfers of assets may be made. Thus, a gift which would be limited to \$13,000 if made in cash increases to \$21,667 if made with limited liability company interests at a 40% discount. Applying these discounts, a married couple will be able to transfer approximately \$43,000 per beneficiary per year, or \$430,000 over ten years, excluding growth.

[Annual exclusion gifts can also be used to shield transfers to an irrevocable trust from gift and generation-skipping transfer tax. The beneficiary must have the right to withdraw up to \$13,000 of the transferred funds, but if that right is not exercised, the gifted funds can then be used to purchase life insurance on the life of the transferor or for other investments. This trust can be a multigenerational estate tax exempt trust or it can become a family “bank” for: (1) education; (2) business acquisitions; or (3) home purchases, among other things.]

Medical care and tuition paid to assist family members or any other individual may be made in addition to the annual exclusion gifts. As long as the gifts are made directly to the medical facility or educational institution, donors can exceed the \$13,000 annual exclusion amount without imposition of gift taxes.

THE SAMPLE FAMILY INVESTMENT COMPANY, LLC

A limited liability company can provide significant asset protection for assets owned by the entity in the event of a lawsuit against an individual member of the company. When a judgment is entered against a member, the creditor has no right to seize the assets inside the company or the member's membership interest. Creditors have no right to manage the company or to demand that distributions be made from it. The law generally allows a creditor to seize any distributions actually made to the member against whom a judgment is entered, but not the assets inside it. Furthermore, since the creditor does not become a member, there is no way for the creditor to force the managing member to take any action. The creditor would be forced to wait until a distribution was actually made to the debtor-member. These asset protection benefits are not available when a judgment is entered against the company itself. In that event, the creditor may satisfy the judgment with company assets. For this reason, high-risk assets should not be contributed to or purchased by the company. A limited liability company is established by filing Articles of Organization with the Secretary of State. The managers of the company have total control and management of the company regardless of their percentage of ownership.

Most investment assets may be held by your LLC, including real estate (other than your personal residence), tangible personal property and intangible personal property (such as stocks, bonds, mutual funds, brokerage accounts and life insurance). As a general rule, no gain or loss is recognized when assets are transferred to the LLC.

LLCs do have some continuing administrative fees and expenses. They may require a yearly income tax return, accounting and annual filing fees. They need to be reviewed by counsel at least annually in order to make sure the company is being operated properly. However, the LLC is not a separate tax-paying entity. Income and losses are passed through on a pro-rata basis to the owners of the membership interests of the company. Therefore, with children or grandchildren in lower tax brackets, the transfer of limited liability company interests to these family members can shift income from you to them at a lower tax cost.

QUALIFIED PERSONAL RESIDENCE TRUST

A Qualified Personal Residence Trust (“QPRT”) is a type of trust specifically authorized by the Internal Revenue Code. It permits you to transfer ownership of your residence to your family during your lifetime and retain the exclusive right to live in the residence, while reducing the size of your estate for estate tax purposes.

The residence is transferred to the Qualified Personal Residence Trust for a designated initial term of years. Provided you survive the initial term of years, ownership of the residence will be transferred to your family at a fraction of its fair market value. If you die during the initial term of years the property will be brought back into your estate, but you will be no worse off than had you not created the Qualified Personal Residence Trust. You may transfer up to two (2) personal residences into Qualified Personal Residence Trusts.

The Qualified Personal Residence Trust is a particularly noteworthy estate planning tool to reduce federal estate taxes because it permits you to transfer a residence out of your taxable estate while retaining the right to use it during your lifetime. The gift for federal gift tax purposes is based upon IRS published interest rates at the time of the transfer, and this rate does not take into consideration actual appreciation in the value of the property. Accordingly, these trusts are particularly useful to transfer residences in which significant future appreciation is anticipated. The Qualified Personal Residence Trust permits you to continue to enjoy your residence, knowing that the value at the date of death will not be included in your estate.

During the term of years of the trust you have the absolute right to remain in the residence rent free. After the initial term you can be granted the right to rent the residence for the balance of your lifetime for its fair rental value.

During the term of years, you can be the sole trustee or a cotrustee of the trust with complete control over all decisions of the trust and the assets in the trust. You may also sell the residence and buy another residence during the trust term.

Because the Qualified Personal Residence Trust is a “grantor trust” under the income tax laws, during the initial term of years you are treated as the owner of the property for income tax purposes. Therefore, all items of income, gain, loss and deduction with respect to the trust are treated on your personal income tax return. So for example, the deduction for real estate taxes remains available to you. In addition, favorable capital gains treatment, including capital gain rollover and the \$250,000 exclusion of gain are still available to you.

GRANTOR RETAINED ANNUITY TRUST

The Grantor Retained Annuity Trust (“GRAT”) is a type of trust specifically authorized by the regulations interpreting the Internal Revenue Code. This type of irrevocable trust permits you to make a lifetime gift of assets to an irrevocable trust in exchange for a fixed payment stream for a specified term of years.

At the end of the term of years, the balance of the trust property (the “remainder interest”) is transferred to the beneficiaries of your choice, typically children or grandchildren. The Grantor Retained Annuity Trust reduces estate taxes by removing assets from those that are counted in your estate for estate tax purposes.

The gift for federal gift tax purposes is based upon IRS published interest rates at the time of the transfer. This rate does not take into consideration any future appreciation in the value of the property and therefore you can reduce the value of the gift to as low as zero. The Grantor Retained Annuity Trust is particularly suited for assets that are expected to grow rapidly in value and property subject to discounts, such as interests in closely held businesses or limited liability companies.

During the term of years of the trust you must be paid a fixed amount annually or more frequently (for example, quarterly). The term of years and the amount of the payment are fixed at the time you create the trust (determined by you with the assistance of your legal and financial advisors).

During the term of years of the trust you can be the sole trustee or a cotrustee of the trust with complete control over all decisions of the trust and the assets in the trust.

Because the Grantor Retained Annuity Trust is a “grantor trust” under the income tax laws, during the initial term of years you are treated as the owner of the property for income tax purposes. Therefore, all items of income, gain, loss and deduction with respect to the Grantor Retained Annuity Trust are treated on your personal income tax return.

If you die during the term of years the property in Grantor Retained Annuity Trust will be counted in your estate for estate tax purposes, but you will be no worse off than had you not created the trust.

CHARITABLE REMAINDER TRUST

The Charitable Remainder Trust (“CRT”) is a type of trust specifically authorized by the Internal Revenue Code. These irrevocable trusts permit you to transfer ownership of assets to the trust in exchange for an income stream to the person or persons of your choice (typically you, your spouse or you and your spouse) for life or for a specified term of up to 20 years. With the most common type of Charitable Remainder Trust, at the end of the term, the balance of the trust property (the “remainder interest”) is transferred to a specified charity or charities. Charitable Remainder Trusts reduce estate taxes because you are transferring ownership to the trust of assets that otherwise would be counted for estate tax purposes.

A Charitable Remainder Trust can be set up as part of your revocable living trust planning, coming into existence at the time of your death, or as a stand-alone trust during your lifetime. At the time of creation of the CRT you or your estate will be entitled to a charitable deduction in the amount of the current value of the gift that will eventually go to charity. If the income recipient is someone other than you or your spouse there will be gift tax consequences to the transfer to the CRT.

Charitable Remainder Trusts are tax-exempt entities. In other words, when a Charitable Remainder Trust sells an asset it pays no income tax on the gain in that asset. Therefore, after a sale the trust has more available to invest than if the asset were sold outside of the Charitable Remainder Trust and subject to tax. Accordingly, Charitable Remainder trusts are particularly suited for highly appreciated assets, such as real estate and stock in a closely held business, or assets subject to income tax such as qualified plans and IRAs. While the Charitable Remainder Trust does not pay tax on the sale of its assets, the tax is not avoided altogether. The payments to the income recipient will be subject to tax.

There are several types of Charitable Remainder Trusts. For example, the Charitable Remainder Annuity Trust pays a fixed dollar amount (for example, \$80,000 per year) to the income recipient at least annually. Another type of CRT, the Charitable Remainder Unitrust, pays a fixed percentage of the value of the trust assets each year to the income recipient (for example, 8% of the value as of the preceding January 1). A third type, perhaps the most common, allows you to transfer non-income producing property to the CRT and have the trust convert to a Charitable Remainder Unitrust upon the sale or happening of a specified event, for example upon reaching a specified retirement age.

At the end of the term of a Charitable Remainder Trust, the remainder interest passes to qualified charities as defined under the Internal Revenue Code. Generally, any charity that has received tax-exempt status through an IRS determination qualifies, but this is not always the case. It is possible for you to name a private foundation established by you as the charitable beneficiary.

CHARITABLE LEAD TRUST

The Charitable Lead Trust is a type of charitable trust that can reduce or virtually eliminate all estate tax on wealth passing to heirs. In order to accomplish this goal, you create a trust that grants to a charity or charities, for a set number of years, the first or “lead” right to receive a payment from the trust. At the end of the term of years, your children or grandchildren receive the balance of the trust property—which often is greater than the amount contributed—free of estate tax in most instances. Although the Charitable Lead Trust is a complex estate planning strategy, the steps to implement it are few and simple from your perspective. Here is how one of the most frequently used Charitable Lead Trusts, the Charitable Lead Annuity Trust, operates:

You, as grantors, create a Charitable Lead Trust as part of your revocable living trust planning. Upon the death of the survivor of the two of you, a substantial amount of property will pass to the Charitable Lead Trust. The income beneficiary of the Charitable Lead Trust will be a qualified charitable organization, chosen by the two of you or by the survivor of you, named in your revocable living trust. The charitable income beneficiary receives a fixed, guaranteed amount from the trust for a certain number of years (determined by you with the assistance of your legal and financial advisors). Generally, any charity that has received tax-exempt status through an IRS determination qualifies, but this is not always the case. It is possible for you to name a private foundation established by you as the charitable beneficiary. If so, you must have very limited authority over which charity is to receive money from the foundation. Too much control while you are alive will result in adverse tax consequences.

At the end of the Charitable Lead Trust’s term, the remaining assets in the trust pass to non-charitable trust beneficiaries such as children and grandchildren, free of estate and gift tax. These assets can pass outright to the beneficiaries, or can continue to be held in trust, either in new trusts or in trusts previously established for the benefit and protection of beneficiaries.

The charity will receive the same dollar amount each year, no matter how its investments perform. The remainder interest ultimately passing to the heirs, however, will be affected by the performance of the trust’s investments.

Charitable Lead Annuity Trusts are particularly suited for hard-to-value assets (such as real estate or family limited liability company interests) and assets which are expected to grow rapidly in value.

IRREVOCABLE GRANTOR TRUST

A “grantor” trust is a trust that contains certain provisions set forth in the Internal Revenue Code, which defines these types of trusts. With a carefully drafted irrevocable grantor trust, the income is imputed to you as the creator of the trust, but the trust assets are not included in your estate for estate tax purposes. In other words, as trust maker you must pay the income tax on all trust income, but trust assets will not be subject to estate tax at your death. The effect of paying the income tax is to further leverage the transfer to your beneficiaries at no additional gift tax cost.

Grantor trusts are useful planning tools in several circumstances, particularly where you desire to sell appreciated assets to the trust without immediately incurring income tax. Under the Internal Revenue Code, when you sell an asset you must pay income tax on the amount above your “basis” in the property. In its most simplified sense, basis is the amount you paid for an asset when you purchased it, or if you received it by gift, it is the donor’s basis in the property.

A typical sale of appreciated property causes imposition of income tax. However, a grantor trust is treated as you for income tax purposes. Since you cannot “sell” property to yourself, a sale to a grantor trust is ignored for income tax purposes. After the sale, the trust will have as its basis the amount it pays for the property.

Significantly, the sale must be for full fair market value – a sale for less than full market value will be treated as part sale, part gift. How does the trust obtain the ability to purchase the assets? One way to accomplish this is by you making a gift to the trust followed by the trust purchasing the assets using an interest-bearing promissory note (with terms similar to a financing transaction with a third-party lender), using the minimum interest rate established by the IRS. Another method is for able beneficiaries to guarantee the payments in a commercially reasonable manner.

Another instance where a grantor trust provides planning opportunities is where you own life insurance in your name (or where an irrevocable trust owns life insurance in your name) and you desire to transfer the policy to an [a new] irrevocable trust. By making the irrevocable life insurance trust a grantor trust you can sell the policy for its fair market value and avoid the problems that can occur when you transfer ownership of an existing life insurance policy.

SPECIAL NEEDS TRUST

A Special Needs Trust is a trust that can supplement the needs of a special needs beneficiary while allowing the beneficiary to maintain his or her governmental benefits, including Supplemental Security Income (SSI), Social Security and Medicaid. With medical advancements, persons with disabilities are living longer and public benefits are often necessary, yet there is no guarantee that public benefits will provide adequate resources over the disabled person's lifetime, or that existing public agencies will continue to provide acceptable services and advocacy over a disabled person's lifetime.

If the special needs trust is established by you or someone other than the disabled person and the disabled person does not have the legal right to demand trust assets, the trust is not considered a "countable resource" for purposes of government benefits. Therefore, the special needs trust beneficiary can continue to receive benefits even though he or she is a trust beneficiary. The trust will give the trustee the discretion to make distributions to the beneficiary to the extent possible without reducing benefits, and trust assets are available if the beneficiary no longer qualifies for governmental assistance or that assistance is no longer available.

If the trust is established on the beneficiary's behalf pursuant to court order, for example as part of a personal injury settlement, the trust will not impact the beneficiary's eligibility, but it may need to include a "payback" provision that reimburses the state for its assistance before trust assets pass to the trust's other beneficiaries. Common savings vehicles for children, like Uniform Transfer to Minor Acts (UTMA) accounts, typical trusts, or designating a retirement plan, insurance policy or annuity directly to an SSI or Medicaid recipient will cause a reduction or elimination of public benefits. Recognizing this, some parents make the difficult decision to disinherit their special needs children, but this severe action is unnecessary.

THE PRIVATE FAMILY FOUNDATION

A private foundation is a non-governmental, nonprofit organization having a principal fund of its own, managed by its own trustees or directors, and established to maintain or aid social, educational, charitable, religious or other activities serving the common welfare. A private foundation may serve as a private, family controlled receptacle for charitable contributions by family members, trusts established for their benefit (including charitable remainder trusts and charitable lead trusts) or family business entities.

A private foundation is established as a nonprofit corporation or trust under state law and obtains tax-exempt status for federal income tax purposes by filing an exemption application with the Internal Revenue Service. In addition, a private foundation may be required to obtain additional exemptions from state and local income and/or property taxes. A private foundation operates under the scrutiny of the Internal Revenue Service and the Attorney General of the state in which the private foundation is organized and operates.

There are several types of private foundations. The most common variety of private foundation is a non-operating private foundation, which serves to make grants to other nonprofit charitable organizations (typically established public charities). The basic role of the non-operating private foundation is to receive and hold funds as an endowment, and to give its income and possibly a portion of its corpus to other entities which operate for charitable purposes. The scope of permissible donees includes all types of charitable organizations, ranging from large, established public charities such as United Way and the American Heart Association, to churches, colleges, universities and hospitals, to smaller local charitable organizations. A non-operating private foundation may make distributions for use in foreign countries, though such distributions are typically made to the U.S. affiliate of a foreign charitable organization.

THE PRIVATE FAMILY FOUNDATION

(continued)

The private operating foundation is a type of private foundation which directly carries on an exempt activity, and which uses a specified portion of its assets and/or income for its exempt purpose. Examples of private operating foundations include certain museums, cultural centers and educational institutions. Private operating foundations generally do not differ significantly in their activities from charitable institutions that constitute public charities for income tax purposes. The significant difference between a private operating foundation and a public charity is the level of support which a public charity receives from members of the general public (typically 1/3 or more of the organization's support), whereas the private operating foundation generally receives its support from the members of one family and/or related entities established by or for the members of that family.

There are significant income, estate and gift tax benefits which flow from the establishment and funding of a private foundation, and the use of a private foundation has substantial estate and gift tax benefits to donors. Contributions to private foundations (both operating and non-operating foundations) are deductible for federal gift and estate tax purposes. The private foundation may be funded during the donor's lifetime or may receive the bulk of its funding from distributions from the donor's revocable living trust at the donor's death. In addition, the private foundation may serve as the charitable receptacle for distributions from charitable remainder trusts and/or charitable lead trusts established by the donor.

Significantly, the private foundation may provide a tremendous opportunity for donors to educate family members as to the donors' philanthropic goals, and may also provide younger family members with a sense of responsibility and stewardship of family wealth. The private foundation may be structured to limit the scope of its charitable activities, by defining the permissible donees for charitable distributions, or may be structured to allow for unlimited charitable activities. Moreover, the private foundation may employ family members (subject to limitations as to reasonable compensation) to coordinate the foundation's activities for generations to come.

LIFE INSURANCE

Life insurance is a unique asset in that it serves numerous diverse functions in a tax-favored environment. Life insurance proceeds are received income tax free and, if properly owned by an Irrevocable Life Insurance Trust, life insurance proceeds can also be received free of estate tax.

Some of the frequent uses for life insurance include:

- **Wealth Creation:** Where age or other circumstances have prevented one from accumulating a desired level of wealth, life insurance can create instant wealth, for example, to build an estate, to replace a key employee, to buy out the interest of a business co-owner at death, or to pay off a mortgage.
- **Income Replacement:** Life insurance can provide wealth to replace income lost upon the premature death of the family “bread winner.”
- **Wealth Replacement:** Life insurance can provide the liquidity to pay estate or capital gain taxes after death.

Life insurance can also be used to replace the value of gifts to charity or non-family members.

There are several types of life insurance, including term, permanent, and survivorship or second-to-die insurance. Term insurance, which includes annual renewable and fixed-level term (for example, 20-year Level Term) is temporary in that at the end of the term, the policy terminates and the insured must reapply at the then-going rates, based upon age, health, etc. Therefore, term insurance is often recommended for temporary needs.

Permanent insurance, of which there are several types including whole life, universal life, and variable universal life, are intended remain in-force until the insured’s death, and thus are often recommended for permanent needs.

Survivorship or second-to-die insurance pays out at the death of the survivor. Therefore, second-die insurance is often recommended in those circumstances where the liquidity need arises only at the second death; for example, the need for liquidity to pay estate taxes.

LONG-TERM CARE INSURANCE

Long-term care is the type of care that you may need if you can no longer perform "activities of daily living" by yourself, such as eating, bathing or getting dressed. It also includes the kind of care you would need if you had a severe cognitive impairment like Alzheimer's disease.

If you, your spouse or family member were to need long term care, the cost could deplete more than your own hard-earned assets. However, long-term care can be covered completely or in part by long-term care insurance. Without long term care insurance, the financial burden of caring for you could fall on your family. Most long-term care insurance plans let you choose the amount of the coverage you want, as well as how and where you want to use your benefits. A comprehensive plan includes benefits for all levels of care, custodial to skilled.

Long-term care is not the type of care that you receive in the hospital or your doctor's office. It is not the medical care you need to get well from a sickness or an injury, and it isn't short-term rehabilitation from an accident or recuperation from surgery. Care can be received in a variety of settings, including your own home, assisted living facilities, adult day care centers or hospice facilities.

ANNUITIES

An annuity is a contract between you, the contract owner, and an insurance company for a fixed or increasing payment. The contract owner contributes funds to the annuity in exchange for an income stream for a specified number of years, for life, or for the joint lives of you and your spouse. Commencement of annuity payments (“annuitization”) can start immediately (“an immediate annuity”) or in the future (“a deferred annuity”).

The growth of the annuity value during the accumulation phase is tax deferred. If an annuity was purchased inside a qualified pension plan or IRA, then 100% of the annuity payment is taxable as ordinary income upon distribution. If the annuity contract is purchased with after-tax dollars, then the policyholder upon annuitization recovers his basis (that is, cost to purchase the annuity) pro-rata in the ratio of basis divided by the expected value. After the taxpayer has recovered all of his or her basis, then 100% of the payments thereafter are subject to ordinary income tax.

There are two basic types of annuities, fixed and variable annuities. With a fixed annuity, the insurance company guarantees a minimum return within the annuity, while also typically guaranteeing a minimum annuity benefit. The insurance company bears all risk of meeting these guarantees.

Alternatively, variable annuities have no guarantees as to return or annuity benefit. The contract owner invests the funds by selecting various sub-accounts, which operate similar to mutual funds. The contract owner bears all of the risk with variable annuities.

529 PLANS

Named after the Section of the Internal Revenue Code that creates them, Section 529 plans are unique, tax-favored educational savings vehicles. Section 529 plans permit you to pre-fund up to five years of gifts (currently \$60,000) per beneficiary, retain control over these assets, yet remove them from your estate for estate tax purposes.

There are two types of 529 plans: Prepaid Tuition Plans and the more popular Qualified Savings Plans. Prepaid Tuition Plans are typically limited to in-state public institutions and thus have limited planning application. Savings Plans, alternatively, have broad application in financial and estate planning. Savings plans are essentially state-sponsored mutual funds, because the account owner's contributions and investment performance determine growth. Savings plans offer more flexibility and upside investment potential than prepaid tuition plans because they use a stock market investment approach. Numerous states have savings plans that are open to residents and non-residents alike.

With either type of 529 Plan, the owner contributes cash or cash equivalents (checks, money orders, credit cards, and similar methods) in exchange for interests in the 529 plan. Under current law, withdrawals are tax-exempt if used for “qualified higher education expenses” (QHEEs). QHEEs consist of tuition, fees, books, supplies, equipment, and a limited amount of room and board. Distributions for QHEEs from Private Savings Accounts (PSAs) from private post-secondary educational institutions are also excludable from gross income. With distributions for other than QHEEs, a portion of the distribution will be subject to taxation as coming from the earnings of the account.

It is important to note that the tax-exempt feature of 529 plan distributions is part of the 2001 Tax Act, which is scheduled to terminate at midnight on December 31, 2010. Therefore, unless Congress changes the current law, the prior law will once again control after December 31, 2010. Under the prior law, the earnings on 529 Plan contributions grew tax free until withdrawal, at which point they were taxed in the designated beneficiary's tax bracket if used for QHEEs. If the owner or beneficiary withdrew funds for something other than qualified expenses, the original “distributee,” who is usually the account owner (parent or grandparent), would have been subject to income tax on the earnings portion of the withdrawal. In addition, most states impose a 10% penalty.

PLANNING FOR TAX-QUALIFIED PLANS

Planning for tax-qualified plans, which includes IRAs, 401(k)s and qualified retirement plans, requires a careful examination of the potential taxes that impact these assets. Unlike most other assets that receive a “basis step up” to current fair market value upon the owner’s death, IRAs, 401(k)s and other qualified retirement plans do not step-up to the date-of-death value. Therefore, beneficiaries who receive these assets do so subject to income tax. If your estate is subject to estate tax, the value of these assets may be further reduced by the estate tax. And if you name grandchildren or younger generations as beneficiaries, these assets may additionally be reduced by the generation-skipping transfer tax. All tolled, these assets may be reduced by 70% or more.

There are several strategies available to help reduce the impact of these taxes:

- Structure accounts to provide the longest-term payout possible.
- Take the money out during lifetime and pay the income tax, then gift the remaining cash either outright or through an irrevocable life insurance trust.
- Take the money out during lifetime and buy an immediate annuity to provide a guaranteed annual income, to pay the income tax, and to pay for insurance owned by a wealth replacement trust.
- Name a Charitable Remainder Trust as beneficiary with a lifetime payout to the surviving spouse. The remaining assets would pass to charity at the second death.
- Give the accounts to charity at death.

Structuring the accounts to provide the longest-term payout possible is the most simple and therefore the most common option. With this strategy you name beneficiaries in such a way that requires them to withdraw the least amount possible as required minimum distributions, or those distributions that must be made in order to avoid significant penalties. This can be accomplished by naming the beneficiaries individually or by directly naming their shares of a trust. Frequently, the surviving spouse is named as the primary beneficiary so that he or she may roll over the account into the surviving spouse’s name and treat it as his or her own account. Alternatively, if you are concerned the loss of creditor or divorce protection by naming the surviving spouse individually, you can name a trust for the survivor’s benefit.

Another option is to take the money out during lifetime and pay the income tax, then gift the remaining cash either outright via lifetime giving or through an irrevocable life insurance trust. If through an irrevocable life insurance trust, this strategy makes the most sense where you are in good health and able to obtain life insurance at reasonable rates. Unlike the IRA or retirement plan, the beneficiaries will receive the life insurance proceeds free of income and estate tax and, under certain circumstances, free of generation-skipping transfer tax.

PLANNING FOR TAX-QUALIFIED PLANS

(continued)

Another option is to withdraw your IRA or qualified plan and purchase an immediate annuity, which will generate a guaranteed income stream during the lives of you and your spouse. You can use this income stream to pay the income tax caused by the withdrawal, and also pay the premiums on life insurance owned by a Wealth Replacement Trust. Again, this strategy makes the most sense where you are in good health and able to obtain life insurance at reasonable rates. Unlike the IRA or retirement plan, the beneficiaries will receive the life insurance proceeds from the Wealth Replacement Trust free of income and estate tax and, under certain circumstances, free of generation-skipping transfer tax.

Alternatively, it may make sense to use other assets to purchase the immediate annuity, saving the IRA for family members. This strategy makes the most sense when you can defer the income tax on the IRA or qualified plan for many years by naming a very young beneficiary.

Yet another option is for you to leave the accounts to a Charitable Remainder Trust ("CRT"), described in detail under Creation of a Charitable Remainder Trust. This will allow the accounts to pass free of any estate taxes and will pay to the surviving spouse an annual income stream, either in a specified dollar amount or the lesser of the trust income or a percentage of the net fair market value of the assets.

With this option, a testamentary CRT may be established upon the death of the first of you to die. The survivor is guaranteed an annuity for his or her lifetime that will help maintain his or her lifestyle should the family's income stream be insufficient. The property will only go to the CRT at death. It is only at death or incompetency that this aspect of your estate plan becomes irrevocable. However, even after the first death occurs, the survivor still has the ability to change which charities are to receive the assets or to bypass the CRT entirely. At the second death, the property in the CRT will pass to charity.

The final option is for you to give the accounts to charity at your death or at the death of the survivor of you. This strategy is particularly attractive if you intend to make gifts to charity at your death and the question is simply what assets should you select. As a tax-exempt entity, a qualified charity does not pay income tax and therefore receives qualified retirement plans free of income tax. In other words, if your beneficiary is in a 35% tax bracket, a \$100,000 IRA is worth only \$65,000 in his or her hands, but worth the full \$100,000 if given to charity. Therefore, it makes economic sense to give these assets to charity and give to your children or other beneficiaries' assets that are not subject to income tax and which receive a step-up in basis to their date-of-death value at your death.

ALASKA COMMUNITY PROPERTY TRUST

The Alaska Community Property Trust is a specific type of trust that allows you to transfer assets to children and grandchildren in an asset protected manner while reducing or eliminating income tax on highly appreciated assets.

Under the Internal Revenue Code, when someone sells an asset they must pay income tax on the amount above their “basis” in the property. In its most simplified sense, basis is the amount you paid for an asset when you purchased it, or if you received it by gift, it is the donor’s basis in the property. For example, if you purchased 100 shares of Microsoft stock for \$10 per share, your basis would be \$1000. If you sold these shares today you would pay income tax (at capital gain rates) on the sale price less \$1000.

The Internal Revenue Code also provides that when an individual dies, most property that he or she owns receives a “step up” in basis to its fair market value on the date of death. With a married couple, in the majority of states (the so-called Separate Property States), only that property owned by the deceased spouse receives this basis adjustment. Therefore, if each spouse owns 50% of the property, one-half of their property receives a step-up in basis.

However, married couples who live in the ten Community Property states (Alaska, Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas Washington, Wisconsin) and hold their property as community property receive a full “step up” in basis to the date-of-death value upon the death of the first spouse to die. Thus, residents of community property states receive a significant capital gains tax benefit by holding appreciated property as community property.

The Alaska Community Property Trust permits non-Alaska residents to “borrow” the Alaska Community Property law and avoid capital gains on their highly appreciated property upon the death of the first spouse. With this strategy, you transfer highly appreciated property to a trust drafted to take advantage of the Alaska Community Property Trust law, which includes the requirement that an Alaskan Trustee oversee the trust property. Then, upon the death of the first of you to die, the entire property steps up to its date-of-death fair market value. The survivor of you or your beneficiaries can then sell the property and be subject only to post-death gains.

STAND-ALONE TRUST FOR TAX-QUALIFIED PLANS

IRAs and qualified plans create a unique planning challenge in that these assets are subject to income tax when received by the beneficiary (this is discussed more fully under Planning for Tax Qualified Plans). One way to help reduce the tax impact is to structure these accounts to provide the longest term payout possible; deferring income tax as long as possible minimizes the overall tax impact and allows the account to grow tax-free.

To achieve this maximum "stretch-out", you should name individuals who are young (e.g., children or grandchildren) as the designated beneficiary of your tax-qualified plans and, significantly, the beneficiary should take only those minimum distributions that are required by law. The younger the beneficiary, the smaller these required minimum distributions.

Naming a beneficiary outright to accomplish this deferral has several disadvantages. First, if the beneficiary is very young, the distributions must be paid to a guardian; if the beneficiary has no guardian, a court must appoint one. Another disadvantage is the potential loss of creditor protection. A third, practical disadvantage is that many beneficiaries take distributions much larger than the required minimum distributions, often consuming this "found money" in only a couple of years.

However, by naming a trust as the beneficiary of your tax-qualified plans, you can ensure that the beneficiary defers the income and that these assets remain protected from creditors or a former son or daughter-in-law. We recommend that this trust be a stand-alone Retirement Trust (separate from your revocable living trust and other trusts) to ensure that it accomplishes your objectives while also ensuring the maximum tax deferral permitted under the law. This trust can either pay out the required minimum distribution to the beneficiary or it can accumulate these distributions and pay out trust assets pursuant to the standard you set in advance (e.g., for higher education, etc.)

INHERITOR'S TRUST

An Inheritor's Trust is a trust established for the specific purpose of receiving an inheritance in a manner that is protected from your creditors and excluded from your estate for federal estate tax purposes. The laws of nearly every state, including ours, prohibit so-called "self-settled trusts" - an irrevocable trust you establish yourself for your benefit, yet which purports to protect the trust assets from your creditors. Therefore, once you receive an inheritance, you cannot asset protect the inheritance yourself.

However, if you are expecting an inheritance - for example, from a parent or grandparent - and that person is unable or unwilling to set up your inheritance in an asset-protected trust, you can protect these assets yourself by creating an Inheritor's Trust to be the recipient of the inheritance. An Inheritor's Trust legally protects the inherited assets from creditors and divorce yet allows you to access them as necessary. This trust also removes the assets from your estates so that these assets will not be subject to federal estate tax upon your death. You can even have the ability to appoint these assets at your death to a trust that will provide similar protections to your children and grandchildren, yet be exempt from federal estate and generation-skipping transfer taxes for generations.

STAND-ALONE EDUCATIONAL TRUST

A Stand-Alone Educational Trust is a type of trust that can pay for educational expenses, solve income tax issues, and provide an important piece of your estate plan. These trusts are specifically designed to manage so-called 529 plans, named after the Code section that creates these state sponsored savings plans.

More and more clients are using 529 Plans as an educational savings vehicle for their children, grandchildren and other family members. These vehicles are immensely attractive because they are estate tax free, income tax free, and in some states protected from creditors. However, as you invest more and more money in 529 Plans, it becomes more critical that these assets are managed properly during your lifetime and after death.

A 529 Plan combined with an Educational Trust provides more flexibility to move assets between siblings (the one in medical school will need more money), and just as importantly, provides a smooth transition should you become incapacitated or die. Significantly, the trust funds can also be returned to you should you experience a financial emergency. You can create one Education Trust for all beneficiaries, or one trust for each beneficiary as his or her "special" gift.

REVOCABLE GIFT TRUST

A Revocable Gift Trust is a particular type of revocable trust for educational or other specified purposes, often established for grandchildren or other close family members. This type of trust allows you, as the maker of the trust, to make gifts that are revocable during your lifetime yet protected from the beneficiary's creditors at your death.

With a Revocable Gift Trust, you retain the right to revoke the gift and, as a result, pay the income tax on the income generated by the trust. At your death the beneficiary receives the trust assets with a basis equal to fair market value at the time of your death, thereby avoiding federal income tax if they immediately sell the property. Only the value increase from the time of your death will be subject to income tax.

DOMESTIC SELF-SETTLED ASSET PROTECTION TRUST

Most states prohibit so-called "self-settled" asset protection trusts, or a trust you establish yourself for your benefit, yet which purports to protect the trust assets from creditors. However, there is a trend among the states to allow these types of trusts, and several states have recently changed their laws to permit them including Alaska, Delaware, Nevada, Rhode Island, South Dakota, and Utah and a few others.

With a domestic self-settled asset protection trust, you irrevocably transfer assets to the trust and name yourself as a beneficiary to receive distributions within the discretion of an independent trustee. You may, however, retain certain rights, including the right to remove and replace the trustee as long as the replacement trustee is also independent and not a related or subordinate party as defined in the Internal Revenue Code.

By retaining a limited power to appoint the trust assets to specific family members at your death, the transfer is incomplete for gift tax purposes and therefore you are not required to file a federal gift tax return. If the trust is designed as incomplete for gift tax purposes, the trust remains part of your estate but the assets should remain free from the claims of your creditors. If designed as a completed gift for tax purposes, others will be the primary beneficiaries but you might still be entitled to receive discretionary needs benefits should you be without sufficient resources to maintain your lifestyle.

The self-settled asset protection trust laws vary from state to state and, therefore, there may be advantages to selecting one state's laws over another in your particular circumstances. Fortunately, you can elect to have your trust governed by a particular state's statute as long as you meet the requirements of that statute, which typically include that the trust assets be located within that state and managed by a local trustee.

Note that self-settled asset protection trusts are only effective for future creditors, as the fraudulent transfer laws of all states prohibit transfers to avoid existing creditors. Also, the trust must be in existence for at least 10 years to protect you against creditors in bankruptcy.

FAMILY BANK TRUST (LIFETIME BYPASS TRUST)

A Family Bank Trust, or Lifetime Bypass Trust, is a type of irrevocable trust that provides complete asset protection for your spouse and descendants, and removes the trust assets from your estate and the estates of your spouse and descendants for estate tax purposes. This type of trust is very similar to a "bypass" trust (one that bypasses federal estate tax) at death.

With a Family Bank Trust, you irrevocably transfer assets (typically up to \$240,000, but no more than \$1 million) to a trust of which your spouse is trustee (or co-trustee) and beneficiary. Your children and other descendants can also be beneficiaries during your spouse's lifetime, or they can be remainder beneficiaries after the death of your spouse. You can also give your spouse the power to appoint, at death, the trust assets for your benefit during your lifetime if your spouse predeceases you.

Both spouses can create similar trusts for each other's benefit, and thereby obtain the asset protection and estate tax benefits, but the trusts cannot be identical in all respects.

YOUNG PERSON'S TRUST

As the custodian of UTMA or UGMA assets, you are responsible for investing those assets for the child's benefit. However, once the child attains 21 years (18 in some states), that child has the absolute right to control these assets - and do with them assets as he or she pleases. This is one of the significant disadvantages of UTMA and UGMA accounts.

A Young Person's Trust is a type of trust that allows you to continue to manage these assets after the child attains age of majority. The child creates his or own revocable living trust (and ancillary documents) naming you as sole trustee, adding child as co-trustee upon attainment of a specified age (e.g., 25 or 30). The child may be made sole trustee after a specified period. The child then funds the UTMA or UGMA assets into the revocable trust upon attaining majority.

This strategy creates an estate plan for the child and, further, creates a trustee-in-training program so that the child can better manage his or her assets as trustee.

STAY BONUS

A Stay Bonus is an inducement to your key employees to remain with the company after your death to preserve the enterprise value of the business. It is a contract with your key employees that provides that they will receive a significant bonus in every paycheck for a two or three year period after your death if they stay with the company.

The Stay Bonus is funded with life insurance on your life. This life insurance is owned by an irrevocable life insurance trust that is earmarked to pay the bonus. Since the life insurance is owned by the life insurance trust, the insurance proceeds will not be subject to estate tax at your death.

CASH FLOWS INTRODUCTION

The following pages show detailed cash flow information. Contained in this data you will find projections of asset growth, income and expenses, income taxation and estate tax analysis.

The information can be used by you and your other advisors to help understand the recommendations that are being made in this proposal. The information might also be helpful to an understanding of how your estate could be expected to grow over a given number of years.

Naturally, since the cash flows are based on assumptions which will likely change over time, it should be anticipated that the results will also change.

There are three sets of cash flows. The first shows cash flow for a client with no planning.

The second set assumes that the client has done or is doing marital/family trust planning.

The final set assumes both marital and family trust planning, and adds life insurance owned by an ILIT.

Cash Flow Surplus and Shortfalls

On the 'Cash Flow Projections' pages of this report you will see a row at the bottom labeled "Shortage or Surplus". If any of the numbers in this row are negative, it means that you needed to go into your assets (marketable securities) to support your lifestyle. If the numbers are positive, this means that you did not use all of your income and the surplus is assumed to be re-invested into marketable securities.

If you have negative numbers and no marketable securities, then you will see negative numbers carried in the marketable securities row. This is an accounting entry only. Naturally, some other asset would need to be consumed in order to meet your lifestyle goal. This is not a bad thing. Many retirees plan on using some or all of their capital to support their lifestyles during retirement.

Finally, please know that the cash flows are abbreviated, meaning that you will not be able to see every year. This is done to help understand the general trends of your estate.

PLAN ASSUMPTIONS

The plan is based on numerous assumptions. Important among these are the yield and growth assumptions contained on the Net Worth Statement beginning on the next page. Other assumptions are contained here.

Tax Rate Assumptions

State Income Tax Rate	3.00%
Federal Income Tax Rate	35.00%
Federal Estate Tax Rate	45.00%
Federal Estate Tax Exemption Amount	Current Exemption Under Current Law

Salary and Other Earned Income Assumptions

Annual increase in Ty's earned income	2.00%
Number of years Ty's income is expected to continue	15

Lifestyle Need Assumptions

Net annual outlay for Ty and Lacey's lifestyle needs, not including gifts or income taxes	\$150,000
Annual cost of living increase used in the plan	3.00%

Settlement and Administrative Expenses

Variable estate settlement costs, 1st death	0.50%
Variable estate settlement costs, 2nd death	1.00%
Fixed estate settlement costs, 1st death	\$25,000
Fixed estate settlement costs, 2nd death	\$25,000

State Estate Taxes

We do not compute any state estate taxes for states which have decoupled.

CURRENT NET WORTH STATEMENT

	TY	LACEY	JOINT	TOTAL	YIELD	GROWTH
CASH, SAVINGS AND CDs						
Valley Bank (sa)	-	-	1,977	1,977	2.0%	0.0%
Valley Bank - Demand	-	-	375,988	375,988	2.0%	0.0%
Checking Acct	-	-	53,307	53,307	2.0%	0.0%
Cash Value of Life Insurance	13,970	-	-	13,970	0.0%	0.0%
Total of Cash and Equivalents	13,970	-	431,272	445,242	1.9%	0.0%
MARKETABLE SECURITIES - EQUITIES						
Intermediate Fund Class A	-	-	123,902	123,902	2.0%	5.0%
Core Stock Fund Class A	-	-	147,881	147,881	2.0%	5.0%
International Fund Class A	-	-	106,758	106,758	2.0%	5.0%
National Bank (1000 sh)	-	-	31,000	31,000	2.0%	5.0%
Total of Equities	-	-	409,541	409,541	2.0%	5.0%
NON-TAXABLE MARKETABLE SECURITIES						
Muni Bonds	-	-	750,000	750,000	4.0%	0.0%
Total of Non-Taxable Marketable Securities	-	-	750,000	750,000	4.0%	0.0%

CURRENT NET WORTH STATEMENT (PAGE 2)

	TY	LACEY	JOINT	TOTAL	YIELD	GROWTH
CLOSELY HELD BUSINESS						
Webb Building Supply, Inc (50%)	3,000,000	-	-	3,000,000	0.0%	0.0%
Double W Assoc (50%)	2,500,000	-	-	2,500,000	0.0%	3.0%
Total Closely Held Business	5,500,000	-	-	5,500,000	0.0%	1.4%
RETIREMENT PLANS						
IRA Annuity	68,031	-		68,031	0.0%	7.0%
IRA Annuity	-	44,550		44,550	0.0%	7.0%
American Funds IRA	9,963	-		9,963	0.0%	7.0%
American Funds IRA	-	10,082		10,082	0.0%	7.0%
Webb Building 401(k)	344,090	-		344,090	0.0%	7.0%
Webb Building 401(k)	-	51,974		51,974	0.0%	7.0%
Total Qualified Retirement Plans	422,084	106,606		528,690	0.0%	7.0%

CURRENT NET WORTH STATEMENT (PAGE 3)

	TY	LACEY	JOINT	TOTAL	YIELD	GROWTH
INVESTMENT REAL ESTATE						
30 acres	-	-	150,000	150,000	0.0%	3.0%
Ranch (12.5%)	-	-	200,000	200,000	0.0%	3.0%
Ranch and Hunting Lease (25%)	-	-	150,000	150,000	0.0%	3.0%
Monroe Land (29 acres)	-	-	120,000	120,000	0.0%	3.0%
Fayette Farm (37.5 acres)	-	-	325,000	325,000	0.0%	3.0%
Fayette Farm & Ranch (69 acres)	-	-	390,000	390,000	0.0%	3.0%
Percy Farm (256 acres)	-	-	100,000	100,000	0.0%	3.0%
Total of Real Estate Holdings	-	-	1,435,000	1,435,000	0.0%	3.0%
RESIDENTIAL REAL ESTATE						
123 Main St.	-	-	400,000	400,000	0.0%	3.0%
Total of Personal Residences	-	-	400,000	400,000	0.0%	3.0%
PERSONAL PROPERTY						
Autos	-	-	50,000	50,000	0.0%	0.0%
Household Furnishings	-	-	50,000	50,000	0.0%	0.0%
Tractors, Mower, Farm Equip, ATVs	-	-	45,000	45,000	0.0%	0.0%
Total of Personal Property	-	-	145,000	145,000	0.0%	0.0%
TOTAL ASSETS	5,936,054	106,606	3,570,813	9,613,473		
TOTAL LIABILITIES	-	-	-	-		
NET WORTH	\$ 5,936,054	\$ 106,606	\$ 3,570,813	\$ 9,613,473		

SCHEDULE OF LIFE INSURANCE - CURRENT PLAN

COMPANY	INSURED	POLICY #	BENEFICIARY	PREMIUM	CASH VALUE	DEATH BENEFIT
Policies owned by Ty						
M.O.N.Y (whole)	Ty	#	Lacey	55	7,723	11,969
ING	Ty	#	Lacey	1,500	6,247	500,000
Totals				1,555	13,970	511,969
 New Proposed Insurance in an ILIT						
Policy 1			ILIT	15,000	-	2,000,000
Totals				15,000	-	2,000,000

ASSET VALUE PROJECTIONS - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Asset Values								
Cash, Savings and CDs	445,242	445,242	445,242	445,242	445,242	445,242	445,242	445,242
Marketable Securities - Equities	409,541	458,626	524,658	593,395	664,917	739,308	816,650	418,922
Non-Taxable Marketable Securities	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Closely Held Business	5,500,000	5,530,904	5,606,326	5,682,776	5,760,268	5,838,817	5,918,437	7,251,699
Retirement Plans	528,690	543,697	581,756	622,479	666,052	712,676	762,563	1,763,265
Investment Real Estate	1,435,000	1,452,656	1,496,235	1,541,122	1,587,356	1,634,977	1,684,026	2,623,657
Residential Real Estate	400,000	404,921	417,069	429,581	442,469	455,743	469,415	731,333
Personal Property	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Total assets in estate	9,613,473	9,731,047	9,966,286	10,209,595	10,461,304	10,721,762	10,991,333	14,129,118
Combined net worth	\$ 9,613,473	\$ 9,731,047	\$ 9,966,286	\$ 10,209,595	\$ 10,461,304	\$ 10,721,762	\$ 10,991,333	\$ 14,129,118

In the event that there is a cash flow surplus, the surplus is added to the marketable securities row by default.

If there is a cash flow shortage (spending or gifting capital) then the shortage is treated as a reduction in marketable securities.

TAXABLE INCOME PROJECTIONS - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Sources of taxable income								
Cash, Savings and CDs		8,625	8,625	8,625	8,625	8,625	8,625	8,625
Marketable Securities - Equities		8,191	9,173	10,493	11,868	13,298	14,786	13,350
Retirement Plans		-	-	-	-	-	-	73,748
Client earned income		350,000	357,000	364,140	371,423	378,851	386,428	-
Social security income		25,000	25,750	26,523	27,318	28,138	28,982	45,153
Pension income		-	5,000	5,100	5,202	5,306	5,412	7,284
Gross income	\$	391,816	\$ 405,548	\$ 414,881	\$ 424,436	\$ 434,219	\$ 444,234	\$ 148,161

INCOME TAX PROJECTIONS - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Income tax Estimation								
Adjusted gross income:								
Dividend income (marketable sec.)		8,191	9,173	10,493	11,868	13,298	14,786	13,350
Earned and other income		383,625	396,375	404,388	412,568	420,920	429,448	134,810
Adjusted gross income		391,816	405,548	414,881	424,436	434,219	444,234	148,161
Deductions								
Real estate tax		5,000	5,150	5,305	5,464	5,628	5,796	9,031
Illinois state income taxes		11,754	12,166	12,446	12,733	13,027	13,327	4,445
Interest		10,000	10,300	10,609	10,927	11,255	11,593	18,061
Charitable gifts		100,000	103,000	106,090	109,273	112,551	115,927	180,611
Total deductions		126,754	130,616	134,450	138,397	142,460	146,644	212,148
Deductions allowed		126,754	130,616	134,450	138,397	142,460	146,644	212,148
Taxable income		265,062	274,932	280,431	286,040	291,759	297,590	(63,987)
Federal and State income tax	\$	104,526	\$ 108,392	\$ 110,597	\$ 112,847	\$ 115,142	\$ 117,484	\$ (17,951)

All dividend income is treated as qualified dividend income.

State tax is computed at one rate, although actual rates may be graduated.

Reductions equal the applicable reduction in schedule A deductions for high income earners.

CASH FLOW PROJECTIONS - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Sources of income for Lifestyle								
Consumable income (taxable)		391,816	405,548	414,881	424,436	434,219	444,234	148,161
Consumable income (tax exempt)		30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total income available for lifestyle		421,816	435,548	444,881	454,436	464,219	474,234	178,161
Uses of Cash								
Living expenses		150,000	154,500	159,135	163,909	168,826	173,891	270,917
Income tax		104,526	108,392	110,597	112,847	115,142	117,484	(17,951)
Personally held insurance premiums		1,555	1,555	1,555	1,555	1,555	1,555	1,555
Cash gifts to family		25,000	25,000	25,000	25,000	25,000	25,000	25,000
Cash gifts to charity		100,000	103,000	106,090	109,273	112,551	115,927	180,611
Total uses of cash		381,081	392,447	402,377	412,584	423,074	433,857	460,132
Surplus/ (Shortage)	\$	40,735	\$ 43,100	\$ 42,504	\$ 41,853	\$ 41,144	\$ 40,377	\$ (281,971)

In the event that there is a cash flow surplus, the surplus is added to the marketable securities row on the "Asset Value Projections" 3 pages earlier.

If there is a cash flow shortage (spending or gifting capital) then the shortage is treated as a reduction in marketable securities row on the "Asset Value Projections" 3 pages earlier.

FIRST ESTATE TAX ESTIMATION AND DISTRIBUTION - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Tax calculation on Ty's death								
Combined net worth	9,613,473	9,731,047	9,966,286	10,209,595	10,461,304	10,721,762	10,991,333	14,129,118
Ty's estimated estate	7,721,461	7,815,895	8,004,837	8,200,261	8,402,431	8,611,629	8,828,146	11,348,389
Death benefit exceeding CV	497,999	497,999	497,999	497,999	497,999	497,999	497,999	497,999
Total gross estate	8,219,460	8,313,894	8,502,836	8,698,260	8,900,430	9,109,628	9,326,145	11,846,388
Settlement expenses	(66,097)	(66,569)	(67,514)	(68,491)	(69,502)	(70,548)	(71,631)	(84,232)
Joint, personal and IRA to Lacey	(2,207,491)	(2,241,307)	(2,315,380)	(2,393,079)	(2,474,614)	(2,560,208)	(2,650,100)	(4,031,765)
Insurance passing to Lacey	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)
Outright or in trust to Lacey	(5,433,903)	(5,494,048)	(5,607,973)	(5,724,720)	(5,844,346)	(5,966,903)	(6,092,445)	(7,218,422)
Prior Taxable Gifts	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax base	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Federal Estate Tax	-	-	-	-	-	-	-	-
Distribution of Ty's estate								
Settlement expenses	66,097	66,569	67,514	68,491	69,502	70,548	71,631	84,232
Joint, personal and IRA to Lacey	2,207,491	2,241,307	2,315,380	2,393,079	2,474,614	2,560,208	2,650,100	4,031,765
Insurance passing to Lacey	511,969	511,969	511,969	511,969	511,969	511,969	511,969	511,969
Outright or in trust to Lacey	5,433,903	5,494,048	5,607,973	5,724,720	5,844,346	5,966,903	6,092,445	7,218,422
Total	\$ 8,219,460	\$ 8,313,894	\$ 8,502,836	\$ 8,698,260	\$ 8,900,430	\$ 9,109,628	\$ 9,326,145	\$ 11,846,388

Assumptions

We assume that Ty dies first, followed immediately by Lacey.

Taxes under "Distribution of First Estate" include estate and income taxes.

SECOND ESTATE TAX ESTIMATION AND DISTRIBUTION - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Tax Calculation on Lacey's death								
Lacey's assets	1,892,013	1,915,152	1,961,449	2,009,334	2,058,873	2,110,133	2,163,187	2,780,730
Plus assets from Ty's estate	8,153,362	8,247,324	8,435,322	8,629,768	8,830,928	9,039,080	9,254,515	11,762,156
Lacey's estimated estate	10,045,375	10,162,476	10,396,771	10,639,103	10,889,801	11,149,213	11,417,702	14,542,886
Settlement expenses	(125,454)	(126,625)	(128,968)	(131,391)	(133,898)	(136,492)	(139,177)	(170,429)
Lacey's taxable estate	9,919,921	10,035,852	10,267,803	10,507,712	10,755,903	11,012,721	11,278,525	14,372,457
Plus Lacey's lifetime taxable gifts	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Tax base	10,219,921	10,335,852	10,567,803	10,807,712	11,055,903	11,312,721	11,578,525	14,672,457
Tentative estate tax	-	-	4,305,512	4,413,470	4,525,156	4,640,724	4,760,336	6,152,605
Tax on IRD	116,312	119,613	127,986	136,945	146,532	156,789	167,764	387,918
Total tax due	116,312	119,613	4,433,498	4,550,416	4,671,688	4,797,513	4,928,100	6,540,524
Distribution of Lacey's estate								
Settlement expenses	125,454	126,625	128,968	131,391	133,898	136,492	139,177	170,429
Taxes	116,312	119,613	4,433,498	4,550,416	4,671,688	4,797,513	4,928,100	6,540,524
Residual estate to heirs	9,803,609	9,916,238	5,834,306	5,957,296	6,084,215	6,215,208	6,350,425	7,831,933
Total	\$ 10,045,375	\$ 10,162,476	\$ 10,396,771	\$ 10,639,103	\$ 10,889,801	\$ 11,149,213	\$ 11,417,702	\$ 14,542,886

Assumptions

We assume that Ty dies first, followed immediately by Lacey.

Taxes under "Distribution of Second Estate" include estate and income taxes.

SUMMARY OF AFTER TAX BENEFITS TO FAMILY - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Residual estate	9,803,609	9,916,238	5,834,306	5,957,296	6,084,215	6,215,208	6,350,425	7,831,933
Total assets to heirs	\$ 9,803,609	\$ 9,916,238	\$ 5,834,306	\$ 5,957,296	\$ 6,084,215	\$ 6,215,208	\$ 6,350,425	\$ 7,831,933

DETAILS OF TY'S QUALIFIED PLAN - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Ty's Qualified Plans								
Ty's Age		54	55	56	57	58	59	74
Lacey's Age		57	58	59	60	61	62	77
Minimum distribution factor		42.6	41.6	40.7	39.7	38.7	37.8	23.8
Plan contributions		-	-	-	-	-	-	-
Plan balance	422,084	434,065	464,450	496,961	531,748	568,971	608,799	1,443,234
Minimum distribution		-	-	-	-	-	-	58,989
Preferred/Early distribution		-	-	-	-	-	-	-
Actual distribution		-	-	-	-	-	-	58,989

DETAILS OF LACEY'S QUALIFIED PLAN - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Lacey's Qualified Plans								
Lacey's Age		57	58	59	60	61	62	77
Ty's Age		54	55	56	57	58	59	74
Minimum distribution factor		39.7	38.7	37.8	36.8	35.8	34.9	21
Plan contributions		-	-	-	-	-	-	-
Plan balance	106,606	109,632	117,306	125,518	134,304	143,705	153,765	320,030
Minimum distribution		-	-	-	-	-	-	14,759
Preferred/Early distribution		-	-	-	-	-	-	-
Actual distribution		-	-	-	-	-	-	14,759

ASSET VALUE PROJECTIONS - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Asset Values								
Cash, Savings and CDs	445,242	445,242	445,242	445,242	445,242	445,242	445,242	445,242
Marketable Securities - Equities	409,541	458,626	524,658	593,395	664,917	739,308	816,650	418,922
Non-Taxable Marketable Securities	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Closely Held Business	5,500,000	5,530,904	5,606,326	5,682,776	5,760,268	5,838,817	5,918,437	7,251,699
Retirement Plans	528,690	543,697	581,756	622,479	666,052	712,676	762,563	1,763,265
Investment Real Estate	1,435,000	1,452,656	1,496,235	1,541,122	1,587,356	1,634,977	1,684,026	2,623,657
Residential Real Estate	400,000	404,921	417,069	429,581	442,469	455,743	469,415	731,333
Personal Property	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Total assets in estate	9,613,473	9,731,047	9,966,286	10,209,595	10,461,304	10,721,762	10,991,333	14,129,118
Combined net worth	\$ 9,613,473	\$ 9,731,047	\$ 9,966,286	\$ 10,209,595	\$ 10,461,304	\$ 10,721,762	\$ 10,991,333	\$ 14,129,118

In the event that there is a cash flow surplus, the surplus is added to the marketable securities row by default.

If there is a cash flow shortage (spending or gifting capital) then the shortage is treated as a reduction in marketable securities.

TAXABLE INCOME PROJECTIONS - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Sources of taxable income								
Cash, Savings and CDs		8,625	8,625	8,625	8,625	8,625	8,625	8,625
Marketable Securities - Equities		8,191	9,173	10,493	11,868	13,298	14,786	13,350
Retirement Plans		-	-	-	-	-	-	73,748
Client earned income		350,000	357,000	364,140	371,423	378,851	386,428	-
Social security income		25,000	25,750	26,523	27,318	28,138	28,982	45,153
Pension income		-	5,000	5,100	5,202	5,306	5,412	7,284
Gross income	\$	391,816	\$ 405,548	\$ 414,881	\$ 424,436	\$ 434,219	\$ 444,234	\$ 148,161

INCOME TAX PROJECTIONS - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Income tax Estimation								
Adjusted gross income:								
Dividend income (marketable sec.)		8,191	9,173	10,493	11,868	13,298	14,786	13,350
Earned and other income		383,625	396,375	404,388	412,568	420,920	429,448	134,810
Adjusted gross income		391,816	405,548	414,881	424,436	434,219	444,234	148,161
Deductions								
Real estate tax		5,000	5,150	5,305	5,464	5,628	5,796	9,031
Illinois state income taxes		11,754	12,166	12,446	12,733	13,027	13,327	4,445
Interest		10,000	10,300	10,609	10,927	11,255	11,593	18,061
Charitable gifts		100,000	103,000	106,090	109,273	112,551	115,927	180,611
Total deductions		126,754	130,616	134,450	138,397	142,460	146,644	212,148
Deductions allowed		126,754	130,616	134,450	138,397	142,460	146,644	212,148
Taxable income		265,062	274,932	280,431	286,040	291,759	297,590	(63,987)
Federal and State income tax	\$	104,526	\$ 108,392	\$ 110,597	\$ 112,847	\$ 115,142	\$ 117,484	\$ (17,951)

All dividend income is treated as qualified dividend income.

State tax is computed at one rate, although actual rates may be graduated.

Reductions equal the applicable reduction in schedule A deductions for high income earners.

CASH FLOW PROJECTIONS - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Sources of income for Lifestyle								
Consumable income (taxable)		391,816	405,548	414,881	424,436	434,219	444,234	148,161
Consumable income (tax exempt)		30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total income available for lifestyle		421,816	435,548	444,881	454,436	464,219	474,234	178,161
Uses of Cash								
Living expenses		150,000	154,500	159,135	163,909	168,826	173,891	270,917
Income tax		104,526	108,392	110,597	112,847	115,142	117,484	(17,951)
Personally held insurance premiums		1,555	1,555	1,555	1,555	1,555	1,555	1,555
Cash gifts to family		25,000	25,000	25,000	25,000	25,000	25,000	25,000
Cash gifts to charity		100,000	103,000	106,090	109,273	112,551	115,927	180,611
Total uses of cash		381,081	392,447	402,377	412,584	423,074	433,857	460,132
Surplus/ (Shortage)	\$	40,735	\$ 43,100	\$ 42,504	\$ 41,853	\$ 41,144	\$ 40,377	\$ (281,971)

In the event that there is a cash flow surplus, the surplus is added to the marketable securities row on the "Asset Value Projections" 3 pages earlier.

If there is a cash flow shortage (spending or gifting capital) then the shortage is treated as a reduction in marketable securities row on the "Asset Value Projections" 3 pages earlier.

FIRST ESTATE TAX ESTIMATION AND DISTRIBUTION - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Tax calculation on Ty's death								
Combined net worth	9,613,473	9,731,047	9,966,286	10,209,595	10,461,304	10,721,762	10,991,333	14,129,118
Ty's estimated estate	7,721,461	7,815,895	8,004,837	8,200,261	8,402,431	8,611,629	8,828,146	11,348,389
Death benefit exceeding CV	497,999	497,999	497,999	497,999	497,999	497,999	497,999	497,999
Total gross estate	8,219,460	8,313,894	8,502,836	8,698,260	8,900,430	9,109,628	9,326,145	11,846,388
Settlement expenses	(66,097)	(66,569)	(67,514)	(68,491)	(69,502)	(70,548)	(71,631)	(84,232)
Joint, personal and IRA to Lacey	(2,207,491)	(2,241,307)	(2,315,380)	(2,393,079)	(2,474,614)	(2,560,208)	(2,650,100)	(4,031,765)
Insurance passing to Lacey	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)
Family Trust	-	-	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)
Outright or in trust to Lacey	(5,433,903)	(5,494,048)	(4,807,973)	(4,924,720)	(5,044,346)	(5,166,903)	(5,292,445)	(6,418,422)
Taxable estate	-	-	800,000	800,000	800,000	800,000	800,000	800,000
Prior Taxable Gifts	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax base	200,000	200,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Federal Estate Tax	-	-	-	-	-	-	-	-
Distribution of Ty's estate								
Settlement expenses	66,097	66,569	67,514	68,491	69,502	70,548	71,631	84,232
To family trust	-	-	800,000	800,000	800,000	800,000	800,000	800,000
Joint, personal and IRA to Lacey	2,207,491	2,241,307	2,315,380	2,393,079	2,474,614	2,560,208	2,650,100	4,031,765
Insurance passing to Lacey	511,969	511,969	511,969	511,969	511,969	511,969	511,969	511,969
Outright or in trust to Lacey	5,433,903	5,494,048	4,807,973	4,924,720	5,044,346	5,166,903	5,292,445	6,418,422
Total	\$ 8,219,460	\$ 8,313,894	\$ 8,502,836	\$ 8,698,260	\$ 8,900,430	\$ 9,109,628	\$ 9,326,145	\$ 11,846,388

Assumptions

We assume that Ty dies first, followed immediately by Lacey.

Taxes under "Distribution of First Estate" include estate and income taxes.

SECOND ESTATE TAX ESTIMATION AND DISTRIBUTION - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Tax Calculation on Lacey's death								
Lacey's assets	1,892,013	1,915,152	1,961,449	2,009,334	2,058,873	2,110,133	2,163,187	2,780,730
Plus assets from Ty's estate	8,153,362	8,247,324	7,635,322	7,829,768	8,030,928	8,239,080	8,454,515	10,962,156
Lacey's estimated estate	10,045,375	10,162,476	9,596,771	9,839,103	10,089,801	10,349,213	10,617,702	13,742,886
Settlement expenses	(125,454)	(126,625)	(120,968)	(123,391)	(125,898)	(128,492)	(131,177)	(162,429)
Lacey's taxable estate	9,919,921	10,035,852	9,475,803	9,715,712	9,963,903	10,220,721	10,486,525	13,580,457
Plus Lacey's lifetime taxable gifts	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Tax base	10,219,921	10,335,852	9,775,803	10,015,712	10,263,903	10,520,721	10,786,525	13,880,457
Tentative estate tax	-	-	3,949,112	4,057,070	4,168,756	4,284,324	4,403,936	5,796,205
Tax on IRD	116,312	119,613	127,986	136,945	146,532	156,789	167,764	387,918
Total tax due	116,312	119,613	4,077,098	4,194,016	4,315,288	4,441,113	4,571,700	6,184,124
Distribution of Lacey's estate								
Settlement expenses	125,454	126,625	120,968	123,391	125,898	128,492	131,177	162,429
Taxes	116,312	119,613	4,077,098	4,194,016	4,315,288	4,441,113	4,571,700	6,184,124
Residual estate to heirs	9,803,609	9,916,238	5,398,706	5,521,696	5,648,615	5,779,608	5,914,825	7,396,333
Total	\$ 10,045,375	\$ 10,162,476	\$ 9,596,771	\$ 9,839,103	\$ 10,089,801	\$ 10,349,213	\$ 10,617,702	\$ 13,742,886

Assumptions

We assume that Ty dies first, followed immediately by Lacey.

Taxes under "Distribution of Second Estate" include estate and income taxes.

SUMMARY OF AFTER TAX BENEFITS TO FAMILY - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Residual estate	9,803,609	9,916,238	5,834,306	5,957,296	6,084,215	6,215,208	6,350,425	7,831,933
Total assets to heirs	\$ 9,803,609	\$ 9,916,238	\$ 5,834,306	\$ 5,957,296	\$ 6,084,215	\$ 6,215,208	\$ 6,350,425	\$ 7,831,933

SUMMARY OF AFTER TAX BENEFITS TO FAMILY - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Family trust	-	-	800,000	800,000	800,000	800,000	800,000	800,000
Residual estate	9,803,609	9,916,238	5,398,706	5,521,696	5,648,615	5,779,608	5,914,825	7,396,333
Total assets to heirs	\$ 9,803,609	\$ 9,916,238	\$ 6,198,706	\$ 6,321,696	\$ 6,448,615	\$ 6,579,608	\$ 6,714,825	\$ 8,196,333

ADVANTAGE OF AFTER TAX BENEFITS TO FAMILY WITH ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Existing Plan	9,803,609	9,916,238	5,834,306	5,957,296	6,084,215	6,215,208	6,350,425	7,831,933
Essential Plan	9,803,609	9,916,238	6,198,706	6,321,696	6,448,615	6,579,608	6,714,825	8,196,333
Advantage	\$ -	\$ -	\$ 364,400	\$ 364,400	\$ 364,400	\$ 364,400	\$ 364,400	\$ 364,400

DETAILS OF TY'S QUALIFIED PLAN - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Ty's Qualified Plans								
Ty's Age		54	55	56	57	58	59	74
Lacey's Age		57	58	59	60	61	62	77
Minimum distribution factor		42.6	41.6	40.7	39.7	38.7	37.8	23.8
Plan contributions		-	-	-	-	-	-	-
Plan balance	422,084	434,065	464,450	496,961	531,748	568,971	608,799	1,443,234
Minimum distribution		-	-	-	-	-	-	58,989
Preferred/Early distribution		-	-	-	-	-	-	-
Actual distribution		-	-	-	-	-	-	58,989

DETAILS OF LACEY'S QUALIFIED PLAN - ESSENTIAL PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Lacey's Qualified Plans								
Lacey's Age		57	58	59	60	61	62	77
Ty's Age		54	55	56	57	58	59	74
Minimum distribution factor		39.7	38.7	37.8	36.8	35.8	34.9	21
Plan contributions		-	-	-	-	-	-	-
Plan balance	106,606	109,632	117,306	125,518	134,304	143,705	153,765	320,030
Minimum distribution		-	-	-	-	-	-	14,759
Preferred/Early distribution		-	-	-	-	-	-	-
Actual distribution		-	-	-	-	-	-	14,759

ASSET VALUE PROJECTIONS - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Asset Values								
Cash, Savings and CDs	445,242	445,242	445,242	445,242	445,242	445,242	445,242	445,242
Marketable Securities - Equities	409,541	441,626	489,594	539,135	590,260	642,976	697,287	(281,535)
Non-Taxable Marketable Securities	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Closely Held Business	5,500,000	5,530,904	5,606,326	5,682,776	5,760,268	5,838,817	5,918,437	7,251,699
Retirement Plans	528,690	543,697	581,756	622,479	666,052	712,676	762,563	1,763,265
Investment Real Estate	1,435,000	1,452,656	1,496,235	1,541,122	1,587,356	1,634,977	1,684,026	2,623,657
Residential Real Estate	400,000	404,921	417,069	429,581	442,469	455,743	469,415	731,333
Personal Property	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Total assets in estate	9,613,473	9,714,047	9,931,222	10,155,335	10,386,647	10,625,431	10,871,971	13,428,661
Combined net worth	\$ 9,613,473	\$ 9,714,047	\$ 9,931,222	\$ 10,155,335	\$ 10,386,647	\$ 10,625,431	\$ 10,871,971	\$ 13,428,661

In the event that there is a cash flow surplus, the surplus is added to the marketable securities row by default.

If there is a cash flow shortage (spending or gifting capital) then the shortage is treated as a reduction in marketable securities.

TAXABLE INCOME PROJECTIONS - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Sources of taxable income								
Cash, Savings and CDs		8,625	8,625	8,625	8,625	8,625	8,625	8,625
Marketable Securities - Equities		8,191	8,833	9,792	10,783	11,805	12,860	487
Retirement Plans		-	-	-	-	-	-	73,748
Client earned income		350,000	357,000	364,140	371,423	378,851	386,428	-
Social security income		25,000	25,750	26,523	27,318	28,138	28,982	45,153
Pension income		-	5,000	5,100	5,202	5,306	5,412	7,284
Gross income	\$	391,816	\$ 405,208	\$ 414,180	\$ 423,351	\$ 432,726	\$ 442,307	\$ 135,297

INCOME TAX PROJECTIONS - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Income tax Estimation								
Adjusted gross income:								
Dividend income (marketable sec.)		8,191	8,833	9,792	10,783	11,805	12,860	487
Earned and other income		383,625	396,375	404,388	412,568	420,920	429,448	134,810
Adjusted gross income		391,816	405,208	414,180	423,351	432,726	442,307	135,297
Deductions								
Real estate tax		5,000	5,150	5,305	5,464	5,628	5,796	9,031
Illinois state income taxes		11,754	12,156	12,425	12,701	12,982	13,269	4,059
Interest		10,000	10,300	10,609	10,927	11,255	11,593	18,061
Charitable gifts		100,000	103,000	106,090	109,273	112,551	115,927	180,611
Total deductions		126,754	130,606	134,429	138,364	142,415	146,586	211,762
Deductions allowed		126,754	130,606	134,429	138,364	142,415	146,586	211,762
Taxable income		265,062	274,602	279,751	284,987	290,310	295,722	(76,465)
Federal and State income tax	\$	104,526	\$ 108,267	\$ 110,338	\$ 112,446	\$ 114,590	\$ 116,772	\$ (22,704)

All dividend income is treated as qualified dividend income.

State tax is computed at one rate, although actual rates may be graduated.

Reductions equal the applicable reduction in schedule A deductions for high income earners.

CASH FLOW PROJECTIONS - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Sources of income for Lifestyle								
Consumable income (taxable)		391,816	405,208	414,180	423,351	432,726	442,307	135,297
Consumable income (tax exempt)		30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total income available for lifestyle		421,816	435,208	444,180	453,351	462,726	472,307	165,297
Uses of Cash								
Living expenses		150,000	154,500	159,135	163,909	168,826	173,891	270,917
Income tax		104,526	108,267	110,338	112,446	114,590	116,772	(22,704)
Personally held insurance premiums		1,555	1,555	1,555	1,555	1,555	1,555	1,555
Cash gifts to new ILIT		15,000	15,000	15,000	15,000	15,000	15,000	15,000
Annual Maintenance Costs		2,000	2,000	2,000	2,000	2,000	2,000	2,000
Cash gifts to family		25,000	25,000	25,000	25,000	25,000	25,000	25,000
Cash gifts to charity		100,000	103,000	106,090	109,273	112,551	115,927	180,611
Total uses of cash		398,081	409,322	419,118	429,183	439,523	450,145	472,379
Surplus/ (Shortage)	\$	23,735	\$ 25,886	\$ 25,062	\$ 24,168	\$ 23,203	\$ 22,162	\$ (307,082)

In the event that there is a cash flow surplus, the surplus is added to the marketable securities row on the "Asset Value Projections" 3 pages earlier.

If there is a cash flow shortage (spending or gifting capital) then the shortage is treated as a reduction in marketable securities row on the "Asset Value Projections" 3 pages earlier.

FIRST ESTATE TAX ESTIMATION AND DISTRIBUTION - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Tax calculation on Ty's death								
Combined net worth	9,613,473	9,714,047	9,931,222	10,155,335	10,386,647	10,625,431	10,871,971	13,428,661
Ty's estimated estate	7,721,461	7,802,241	7,976,674	8,156,680	8,342,468	8,534,257	8,732,275	10,785,787
Death benefit exceeding CV	497,999	497,999	497,999	497,999	497,999	497,999	497,999	497,999
Total gross estate	8,219,460	8,300,240	8,474,673	8,654,679	8,840,467	9,032,256	9,230,274	11,283,786
Settlement expenses	(66,097)	(66,501)	(67,373)	(68,273)	(69,202)	(70,161)	(71,151)	(81,419)
Joint, personal and IRA to Lacey	(2,207,491)	(2,238,150)	(2,308,868)	(2,383,002)	(2,460,748)	(2,542,317)	(2,627,933)	(3,901,677)
Insurance passing to Lacey	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)	(511,969)
Family Trust	-	-	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)	(800,000)
Outright or in trust to Lacey	(5,433,903)	(5,483,619)	(4,786,462)	(4,891,434)	(4,998,547)	(5,107,808)	(5,219,221)	(5,988,722)
Taxable estate	-	-	800,000	800,000	800,000	800,000	800,000	800,000
Prior Taxable Gifts	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Tax base	200,000	200,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Federal Estate Tax	-	-	-	-	-	-	-	-
Distribution of Ty's estate								
Settlement expenses	66,097	66,501	67,373	68,273	69,202	70,161	71,151	81,419
To family trust	-	-	800,000	800,000	800,000	800,000	800,000	800,000
Joint, personal and IRA to Lacey	2,207,491	2,238,150	2,308,868	2,383,002	2,460,748	2,542,317	2,627,933	3,901,677
Insurance passing to Lacey	511,969	511,969	511,969	511,969	511,969	511,969	511,969	511,969
Outright or in trust to Lacey	5,433,903	5,483,619	4,786,462	4,891,434	4,998,547	5,107,808	5,219,221	5,988,722
Total	\$ 8,219,460	\$ 8,300,240	\$ 8,474,673	\$ 8,654,679	\$ 8,840,467	\$ 9,032,256	\$ 9,230,274	\$ 11,283,786

Assumptions

We assume that Ty dies first, followed immediately by Lacey.

Taxes under "Distribution of First Estate" include estate and income taxes.

SECOND ESTATE TAX ESTIMATION AND DISTRIBUTION - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Tax Calculation on Lacey's death								
Lacey's assets	1,892,013	1,911,806	1,954,548	1,998,656	2,044,180	2,091,174	2,139,695	2,642,874
Plus assets from Ty's estate	8,153,362	8,233,738	7,607,299	7,786,405	7,971,264	8,162,094	8,359,123	10,402,368
Lacey's estimated estate	10,045,375	10,145,545	9,561,848	9,785,061	10,015,444	10,253,269	10,498,819	13,045,241
Settlement expenses	(125,454)	(126,455)	(120,618)	(122,851)	(125,154)	(127,533)	(129,988)	(155,452)
Lacey's taxable estate	9,919,921	10,019,089	9,441,229	9,662,210	9,890,290	10,125,736	10,368,830	12,889,789
Plus Lacey's lifetime taxable gifts	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Tax base	10,219,921	10,319,089	9,741,229	9,962,210	10,190,290	10,425,736	10,668,830	13,189,789
Tentative estate tax	-	-	3,933,553	4,032,995	4,135,630	4,241,581	4,350,974	5,485,405
Tax on IRD	116,312	119,613	127,986	136,945	146,532	156,789	167,764	387,918
Total tax due	116,312	119,613	4,061,539	4,169,940	4,282,162	4,398,370	4,518,738	5,873,323
Distribution of Lacey's estate								
Settlement expenses	125,454	126,455	120,618	122,851	125,154	127,533	129,988	155,452
Taxes	116,312	119,613	4,061,539	4,169,940	4,282,162	4,398,370	4,518,738	5,873,323
Residual estate to heirs	9,803,609	9,899,476	5,379,690	5,492,270	5,608,128	5,727,366	5,850,093	7,016,466
Total	\$ 10,045,375	\$ 10,145,545	\$ 9,561,848	\$ 9,785,061	\$ 10,015,444	\$ 10,253,269	\$ 10,498,819	\$ 13,045,241

Assumptions

We assume that Ty dies first, followed immediately by Lacey.

Taxes under "Distribution of Second Estate" include estate and income taxes.

SUMMARY OF AFTER TAX BENEFITS TO FAMILY - EXISTING PLAN

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Residual estate	9,803,609	9,916,238	5,834,306	5,957,296	6,084,215	6,215,208	6,350,425	7,831,933
Total assets to heirs	\$ 9,803,609	\$ 9,916,238	\$ 5,834,306	\$ 5,957,296	\$ 6,084,215	\$ 6,215,208	\$ 6,350,425	\$ 7,831,933

SUMMARY OF AFTER TAX BENEFITS TO FAMILY - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Family trust	-	-	800,000	800,000	800,000	800,000	800,000	800,000
Residual estate	9,803,609	9,899,476	5,379,690	5,492,270	5,608,128	5,727,366	5,850,093	7,016,466
Proceeds from new proposed ILIT	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total assets to heirs	\$ 11,803,609	\$ 11,899,476	\$ 8,179,690	\$ 8,292,270	\$ 8,408,128	\$ 8,527,366	\$ 8,650,093	\$ 9,816,466

ADVANTAGE OF AFTER TAX BENEFITS TO FAMILY WITH ESSENTIAL PLAN & ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Benefits to Family								
Existing Plan	9,803,609	9,916,238	5,834,306	5,957,296	6,084,215	6,215,208	6,350,425	7,831,933
Essential Planning w/ ILIT	11,803,609	11,899,476	8,179,690	8,292,270	8,408,128	8,527,366	8,650,093	9,816,466
Advantage	\$ 2,000,000	\$ 1,983,238	\$ 2,345,384	\$ 2,334,974	\$ 2,323,913	\$ 2,312,158	\$ 2,299,668	\$ 1,984,533

DETAILS OF TY'S QUALIFIED PLAN - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Ty's Qualified Plans								
Ty's Age		54	55	56	57	58	59	74
Lacey's Age		57	58	59	60	61	62	77
Minimum distribution factor		42.6	41.6	40.7	39.7	38.7	37.8	23.8
Plan contributions		-	-	-	-	-	-	-
Plan balance	422,084	434,065	464,450	496,961	531,748	568,971	608,799	1,443,234
Minimum distribution		-	-	-	-	-	-	58,989
Preferred/Early distribution		-	-	-	-	-	-	-
Actual distribution		-	-	-	-	-	-	58,989

DETAILS OF LACEY'S QUALIFIED PLAN - ESSENTIAL PLAN W/ ILIT

YEAR	Current	2010	2011	2012	2013	2014	2015	2030
Lacey's Qualified Plans								
Lacey's Age		57	58	59	60	61	62	77
Ty's Age		54	55	56	57	58	59	74
Minimum distribution factor		39.7	38.7	37.8	36.8	35.8	34.9	21
Plan contributions		-	-	-	-	-	-	-
Plan balance	106,606	109,632	117,306	125,518	134,304	143,705	153,765	320,030
Minimum distribution		-	-	-	-	-	-	14,759
Preferred/Early distribution		-	-	-	-	-	-	-
Actual distribution		-	-	-	-	-	-	14,759

DISCLAIMER

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Any discussion in this presentation relating to tax, accounting, investments, regulatory, or legal matters is based on our understanding as of the date of this presentation. Rules in these areas are constantly changing and are open to varying interpretations.

ASSUMPTIONS The plan involves numerous assumptions. While we believe that these assumptions are reasonable, it is important to understand that it is a virtual certainty that the actual results will differ from those illustrated. Returns on investment and performance of financial products can cause the results to vary. Changes in tax, trust or property laws can cause plan results to vary. Plan implementation that differs from that described in the plan will cause the results to vary. Provision of state law may cause the plan results to vary.

TAX OPINIONS The IRS has recently issued new rules for tax practitioners regarding covered opinions, reliance opinions and marketed opinions. While this is an arcane area, suffice it to say that these opinions are often obtained by taxpayers for purposes of avoiding penalties. These opinions are obtained at substantial cost and after substantial legal analysis. If you believe that such an opinion would be helpful to you prior to entering into any of the transactions outlined in this plan, you should feel free to do so.

Be advised that nothing in this analysis should be construed by you, your advisors or any one else as a covered opinion, reliance opinion, marketed opinion or any other type of opinion regarding any of the transactions or outcomes outlined in this plan.