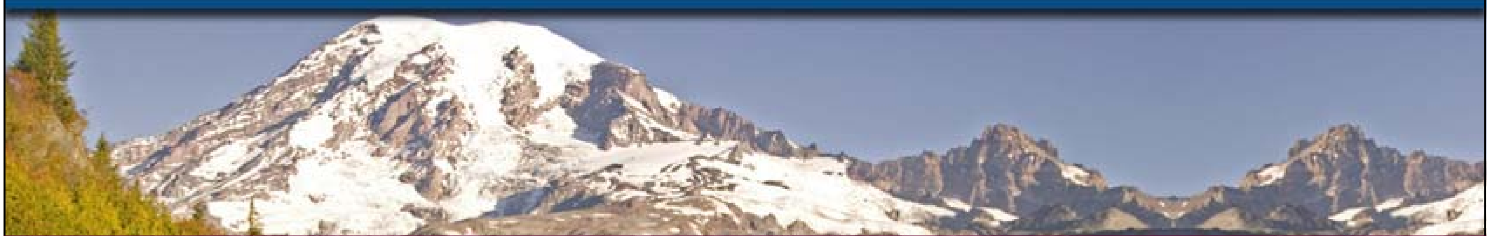
CLEARVIEW
WEALTH MANAGEMENT

Investing with Clarity and Vision



Clarion Newsletter September 2013

Estate Planning
Using Life Insurance to Preserve your Estate Value

We work hard all our lives building our net worth to fund retirement and leave a legacy for loved ones and beneficiaries. Only a small percentage of people will have an estate tax problem at death, our clients excluded. Almost all of our clients are accredited investors; generally defined has $1 million net worth excluding the primary residence, yet many of them have not prepared for the tax burden they will certainly face upon death, mostly because they don't think it will affect them.

A number of our clients will continue to build their net worth during retirement and pass on an estate of greater value than it was the day they retired, creating an estate subject to both state and federal estate taxation. For deaths in 2013, everyone has a lifetime federal gift and estate tax exemption of $5.25 million, which means you can leave or give away up to $5.25 million without owing any federal tax. Many states also impose estate tax above certain limits including Washington ($2 million), Oregon ($1 million) and Illinois ($4 million). California does not currently impose estate tax. The top federal tax rate is currently 40%, Washington's is 19% and both Oregon and Illinois have top rates of 16%. For deaths in 2013, our clients living in Washington State could face a combined estate tax of 59% on all assets above the federal and state limits. With growing national political pressure to lower the exemption limits and increase taxes, it is prudent to plan ahead and take advantage of opportunities to reduce potential taxation.

In the July issue of The Clarion we discussed using gifting strategies to help keep your taxable estate below the Estate Tax Unified Credit allowed by the federal government, give money to loved ones in times

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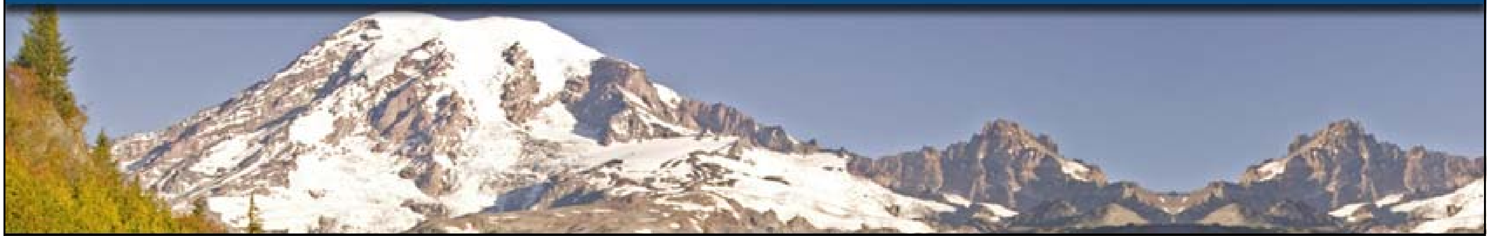

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of need, make charitable gifts, etc. But there are limits on how much one can gift and it is not an efficient way to address an estate tax problem. A much more efficient method of dealing with taxation on larger estates used by many people is a form of life insurance known as Survivorship or Second to Die. Life insurance death benefits are both income and state tax free and the cash value is generally protected from lawsuits and creditors.

Survivorship life insurance insures two lives and pays the death benefit upon the death of the second insured person. This type of policy is typically used for estate planning purposes, but is also often used for parents of children with special needs and for business continuation coverage in small, closely held businesses. The two most common types of second to die insurance are Universal Life and Whole Life.

If a married couple has an estate that exceeds the exemption equivalent of the Estate Tax Unified Credit allowed by federal or state government, an estate tax will be due on the amount exceeding the exemption amount. Rather than leaving their heirs to liquidate all or part of the estate in order to pay “death taxes”, families who have significant estates purchase survivorship insurance solely to pay this tax. The cost of life insurance is usually significantly less than the potential tax liability and proper planning allows one to basically pay the tax with “discounted dollars”.

Because the policy pays upon the death of the second insured person, the premiums for these joint policies are usually much less that if two separate policies were purchased. Also, since this type of planning is usually done by people in their sixties and seventies, there is always the possibility that one of the insured parties might not be insurable on their own, or might be in a lower underwriting class. Because two people are being insured, as long as one of the two is insurable and not in a substandard rate class, most insurance companies would issue a policy covering both parties. While a second to die policy itself is more complex than a standard life insurance policy, its effectiveness depends on how well it is integrated into a comprehensive estate plan. It is important to place the policy inside an irrevocable life insurance trust (ILIT) where the trust is the owner and beneficiary of the life insurance. As trustees, the husband and wife could gift the money to the trust to pay the premiums; currently, between the two of them, they would be able to fund the policy at about $28,000 a year at the tax-exempt limit.

Another common funding method is for couples to cash out their individual whole life policies and place the accrued cash in a trust to fund a survivorship UL policy designed to cover their likely estate taxes. In some cases taxes may be due on the funds withdrawn from the policy, but most people will have enough cash there to pay the premium for the new policy and still come out ahead.

(Continued on page 3)

(Continued from page 2)

As mentioned above, these policies are also often used by parents of special needs children to ensure the child will be cared for if both parents should die. Survivorship insurance is generally used to fund a Special Needs Trust for a two-parent family. The policy pays the Trust upon the death of the second parent. The Trust will have instructions as to how and when the funds from the insurance policy should be distributed on behalf of the special needs child. A successor trustee will be selected to manage the Trust on behalf of the child following the death of the second parent. It is important to select an attorney who specializes in the area of special needs children to help guide you through this very narrow area of specialized planning.

The attorney will help draft a letter of intent providing instructions to the trustee and guardian on how to care for your child. They can draft a Living Trust to avoid probate delays and ensure your directions are fully implemented. The attorney will also draft the Special Needs Trust to manage the assets established for the child. This is one of those areas where you need to hire a qualified estate planning attorney to protect your child in the years following your death.

There may be no escaping death and taxes as they say, but it always pays to plan ahead, especially when planning how to limit your estate taxes after death or fund a special needs trust for your child. Please call us with questions about using life insurance to pay estate taxes and/or create a special needs trust for a loved one.

PERSONAL FINANCE
The Value of Planning Ahead

We all know the value of planning; the process by which we look into the future and make decisions designed to accomplish our goals and objectives. Planning is good. We plan for everything in life from the day we are old enough to think ahead and take responsibility for our actions. We plan for who and what we'll be when we grow up, where we'll get our next meal, who we'll marry, where we'll live, the career we aspire to achieve, having children and the future of our children. We plan what we'll do tomorrow before falling asleep at night, what car we'll buy next and what we'll cook this weekend when our good friends come over for dinner.

We also plan for retirement, life beyond the daily grind and what to do with the money left in our estate when that time comes. But what might surprise you, according to the pundits, most

(Continued on page 4)

(Continued from page 3)

Americans spend more time every year planning their vacations than they spend talking about or planning their personal finances. It is not surprising if you think about it. Many people are uncomfortable talking about money. Most parents never discuss family finances with their children until after they become adults themselves. Very few high schools or colleges offer classes in personal finance. The money conversation can be difficult and upsetting. So, a lot people just don't do it.

Family, friends, faith, sports, work, business, fun and entertainment are all things Americans rate more important and interesting than their personal finances. Maybe that is why we read reports about the millions of people in this country who must work all their lives, as long their health allows, because they cannot afford to live comfortably in retirement without the income. Not everyone had the same opportunity in life to create wealth and build retirement funds for the golden years. But, there are also millions of people who never took advantage of time, compound interest and tax deferral to build wealth over their long working careers.   Too many people have spent their lives living beyond their means, not planning for the years to come when they will lose their ability to earn a substantial income.

Fortunately, this is not true for our clients who have been good planners all their lives. They have created wealth over the years they now want to hold onto in retirement, live on for the rest of their lives and efficiently pass on to loved ones. The results of good planning! But the process never really ends. There is estate planning, vacation planning, gift planning, and wealth retention planning to think about during all those long, sleepless nights.

One of the services we offer our clients is a free Financial Planning Analysis projecting their income from all sources over the next ten years. The plan incorporates their current investments, social security, pensions, IRAs, 401Ks along with a recommended asset allocation among liquid, growth, income and insurance based investments, providing a broadly based asset allocation designed to maintain substantial liquidity, generate monthly income and insure their financial future. Please call the office if you would like to schedule an appointment to have a Financial Planning Analysis completed for you.

They say failing to plan is planning to fail. It is never too late to get started creating your next financial plan!

Thought for the Day

The rich man plans for tomorrow, the poor man for today.

—Chinese Proverb—