



Solutions

WEALTH AND BUSINESS PLANNING STRATEGIES

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LEVERAGING YOUR GIFTING DURING THESE ECONOMIC TIMES

Recent Growth Years Planning and Gifting

Throughout most of the recent years, estate planners have worked with their clients in economic circumstances where one of the greatest problems was the continuing increase in value of the client's investment assets and greater potential estate taxes. Planners have worked with clients on estate tax planning to help reduce the impact of the estate tax and used various trust arrangements to keep assets out of the taxable estate. Estate planners also worked with clients in utilizing gifting programs that transferred assets—along with future increase in value—to children and other family members.

In addition to transferring wealth, the transfer of ownership in a family business, for example, also gave the parents the opportunity to involve their children in the ownership experience that does not occur if they are merely an employee of the business. Having to think like an owner is an important part of proving whether the children have what it takes to succeed in taking over the business at some time in the future. As mentioned earlier, one of the main reasons for the gifting is the ability to transfer to the next generation not only present value of an asset but also a portion of the future appreciation of that asset, rather than keeping it in the client's estate.

Let's take a look at a couple of examples that illustrate the impact of gifting.



Inside: Providing Security in Uncertain Times

Example 1

If we had a family business worth \$1,000,000 and it appreciated at the rate of only 5% per year, it would be worth approximately \$1,629,000 at the end of ten years. Had we given a child \$10,000 of business value each year for the ten-year period, we would have not only transferred a total of \$100,000 in value but also the 5% appreciation for the ten years. The total value that the child would have would be \$132,000. The child would own approximately 8% of the business at the end of the ten years and the \$132,000 of business value would no longer be in the parents' estate. So long as the parents own 50 plus percent of the business, they continue to control it. This is the type of recommendation that planners regularly made to clients – up until the present economic times.



family trusts. Many clients are thinking only about asset protection and do not even want to consider gifting programs. Too many clients will “buy high” and “sell low.” Really smart clients realize that this is the ideal time to maximize wealth transfers, to leverage gifting programs and to position themselves and their families to take advantage of the temporary drop in asset value. They remember that they are not operating over the short term but are planning for themselves and their families for the long haul.

Example 2

We will start with our \$1,000,000 family business and adjust it down to \$800,000 for the economic present time. We are still going to give to the child \$10,000 per year for ten years as we did in Example 1. We will assume we have reached the end of the economic down-turn and will have a 5% appreciation growth rate. If the business grows at 5% over the next ten years, it will be worth approximately \$1,303,000. Since we gave the child \$10,000 per year for ten years plus the appreciation on the gift at 5% for ten years, the value of the gift with inflation will be the same as in Example 1: \$132,000. The child would own approximately 10% of the business rather than just 8% as was shown in Example 1. This example shows the advantage of gifting at the same amount in the present economic times. Gifting under current conditions can transfer more value and help further reduce the size of the parents' estate for estate tax purposes.

Present Economic Times

We are currently in a time where interest rates are at historic lows, assets are highly undervalued, and it looks like the estate tax will become permanent rather than go away. It is a perfect time for estate planning and wealth transfer. But many planners are finding that their clients are frozen with fear and are unwilling or unable to take advantage of the times and take full advantage of the opportunity to transfer discounted wealth. Many people have lost faith in their professional advisors and in financial institutions that were critical to their past planning. The banking industry challenges have caused a number of people to question the wisdom of their choice of trustee for their various

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We can show the power of gifting during down economic times but clients must feel that the economy will come back and that appreciation will continue to be a problem for families in future years. Most financial advisors feel that though we are going through tough times, the economy will turn around and we will again have continued growth in the future. With the estate tax continuing in the future, current gifting makes sense to get ahead of the future appreciation.

Naturally, every family needs to run their own numbers to see how best to leverage the temporary drop in asset value to their advantage, since it is anticipated that we may again have to face future inflation and appreciation.

Even with gifting, the estates of the parents may continue to appreciate and may well be subject to estate tax. Life insurance may continue to be one of the best assets that the family can purchase to provide funds for paying any estate tax due. There is a strong indication from Congress that the estate tax will not be eliminated but will continue in the future as a revenue source for the Treasury. Life insurance can assure that the promised death benefit will be paid when needed to prevent the need for a distressed sale of assets to provide the liquidity for any estate tax.

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New Annual Gifting Benefits Levels Available

The above examples on gifting used an annual gift of \$10,000 for convenience. Thanks to changes announced by the Treasury, the actual present value gift has been increased from \$12,000 to \$13,000 per individual recipient beginning January 1, 2009, without incurring any gift tax and without using any of the lifetime gift tax exclusion. A married couple can give a total of \$26,000

per individual recipient by agreeing to make a joint gift, even if the gift comes from only one of their estates. For the gift to be recognized as a joint gift, they will be required to file a gift tax return, but will not incur any gift tax.

Families often take advantage of this gifting ability to fund an Irrevocable Life Insurance Trust to provide for estate taxes and special plans for their beneficiaries.



The Treasury also increased the annual limit on gifts to a noncitizen spouse to \$133,000. This cap had previously been set at \$128,000 in calendar year 2008.

The amount of assets that can be removed from an estate over a period of years by using the annual exclusion can be substantial and helps in reducing the exposure to the estate tax.

PROVIDING SECURITY IN UNCERTAIN TIMES

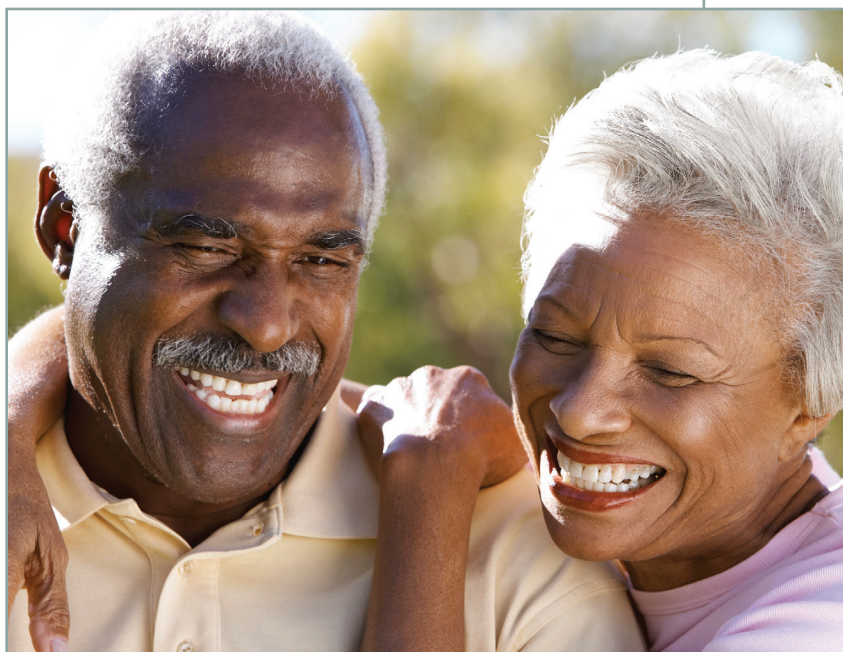
The current financial climate has reminded most investors that they cannot be certain that their investments will ever get back to their value of just a year ago, let alone the most recent high for any given investment. The majority of clients have discovered that the only things that have held value in current conditions are their life insurance and annuity benefits.

According to the Association for Advanced Life Underwriting, life insurance provides protection to nearly 80% of Americans and annuities will provide support to many of the 77 million baby boomers as they enter into their retirement. Life insurance proceeds are the number one source of income for the beneficiaries of those who have died prematurely. In 2007, beneficiaries received more than \$56 billion in death benefits and \$70 billion in annuity benefits. Unfortunately, the average life insurance policy replaces only 3.6 years of income.

In addition to the benefits paid out, the insurance industry plays a critical role in helping provide stability in our economy. The industry is one of the nation's largest sources of capital, investing \$4.3 trillion across many sectors of the economy.

For individuals seeking greater stability and certainty, they may want to consider the value of increasing their life insurance portfolio. It is of great value in life as well as at the time of death.

Your UNIFI representative can help with information on life insurance and other products and services offered through the UNIFI Companies.



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