Fiduciary Trust International

GENERATIONAL WEALTH PLANNING BEGINS HERE

WEALTH PLANNING

Table of Contents

Whatever Stage You Are In, Start There

It can be easy to postpone your long-term wealth management plans—sometimes because the future seems so far away, or because the topic can be challenging to think about.

But to make the most of your wealth during your lifetime and leave behind a legacy, especially if you have dependents, it is important to put a plan in place.

A well-organized wealth plan preserves your legacy and ensures that your assets are available to you when needed and passed down to future generations as efficiently as possible.

It can mean the difference between confusion and peace of mind—for you, for your family and for everyone else you care about.

Your Plan Provides the Answers

A well-constructed wealth plan answers essential questions:

- How will your assets be managed during your lifetime?
- Who has the authority to make financial decisions if you lose capacity?
- Can your financial records and other important documents be accessed readily?
- How will your assets be distributed upon your death?
- Is your family prepared to receive the assets?
- Who receives the proceeds from your retirement accounts and life insurance policies?
- Who will be the guardian for your children?
- How can conflict be avoided?
- How can taxes be minimized?

We Can Help at Any Stage

This guide provides insights on planning strategies that apply at various life stages. Whether you are just beginning or already have a plan, knowing what to do and where to find ongoing guidance can help you provide a more secure and straightforward future for you and your family.

SECTION 1

First Things First: Understanding Your Financial Picture

SECTION
1

A well-thought-out plan provides you with a clear view of your financial picture. This means understanding your personal balance sheet: your income, overall wealth and liabilities, and your most important asset—yourself.

Having a Clear View of Your Financial Picture

The first step toward achieving any goal in life is developing a plan. In your financial life, that begins with a clear understanding of your entire financial picture. With this, you'll be prepared to make smart decisions that move you closer to your goals.

Identifying Your Savings Goals

Whatever your life stage, your assets can usually be divided into different savings goals. For someone in the early stages of a career and building a family, your goals may be as simple as maintaining a household checking account to cover living costs, dedicating savings for a down-payment on a home and contributing to a tax-deferred 401(k) plan for retirement.

For others, goals may entail dedicating funds to charity, passing assets on to benefit the next generation or paying educational expenses for grandchildren.

Identifying your different goals enables you to:

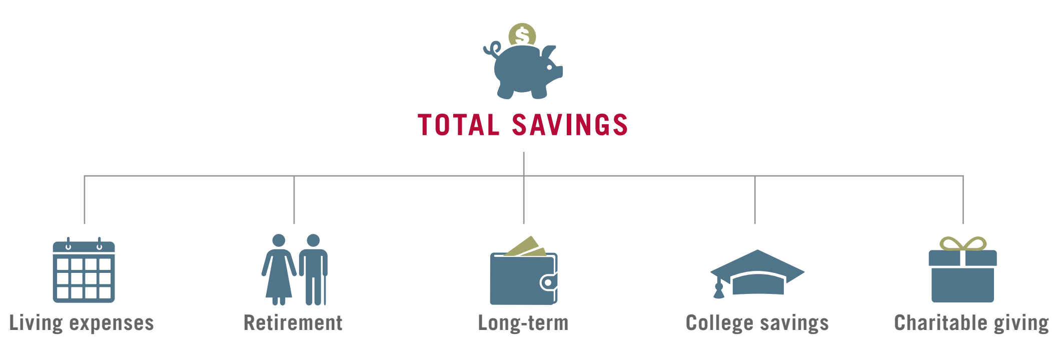
- Ensure assets are invested appropriately
- Align your spending, giving and gifting against your defined goals
- Create a well-coordinated, tax-efficient plan for what happens after you die

Taking Financial Inventory

To create your personal balance sheet, start by compiling a list of your assets, liabilities, financial accounts and physical property, along with their current market values.

As you gather this information, be sure to make a note of where you keep any related legal documents (such as contracts, titles and other documents that offer proof of ownership) and record the names and numbers of any attorneys, accountants or other professionals you work with. If you manage any accounts online, keep a secure log of usernames and passwords so they'll be easily accessible (but safe and secure).

Allocate Savings for Your Goals



Locating Your Physical Property

List all your substantial physical assets, their current values or estimated values, and the location of any related documents. Be sure to include details about the structures and characteristics of your assets. For example, if you own a vacation home, include its purchase price, current estimated market value, annual property taxes and insurance coverage. Don't forget about valuables such as fine jewelry, artwork and rare collectibles.

Estimating Your Income and Expenses

Track the income you receive on a regular basis and its source, including your paycheck (after taxes and other deductions). If you receive periodic distributions from a trust or other source of income on a regular basis and expect it to continue, include that number as well.

Next, track all your fixed expenses for necessities such as food, clothing and housing, and variable expenses such as entertainment, personal travel and dining out.

Finally, calculate the difference between your monthly income and expenses to see where you stand.

For some, this activity will highlight spending patterns that can be improved. For everyone, this will enable you to understand whether you are accumulating or spending, and at what rate. From there, your financial plan can begin to come into focus.

Understand Your Income versus Your Expenses

Inflow	
Employment Incomes	$275,000
Business Incomes	$475,000
Rental Incomes	$10,000
Social Security Incomes	$0
Other Incomes	$7,000
Total Inflow	**$767,000**
Outflow	
Living Expenses	$165,000
Insurance Premiums	$12,000
Mortgage Payments	$60,000
Income Taxes	$325,000
Property Taxes	$15,000
Total Outflow	**$577,000**
Net Cash Flow	**$190,000**

Projecting Your Future Wealth

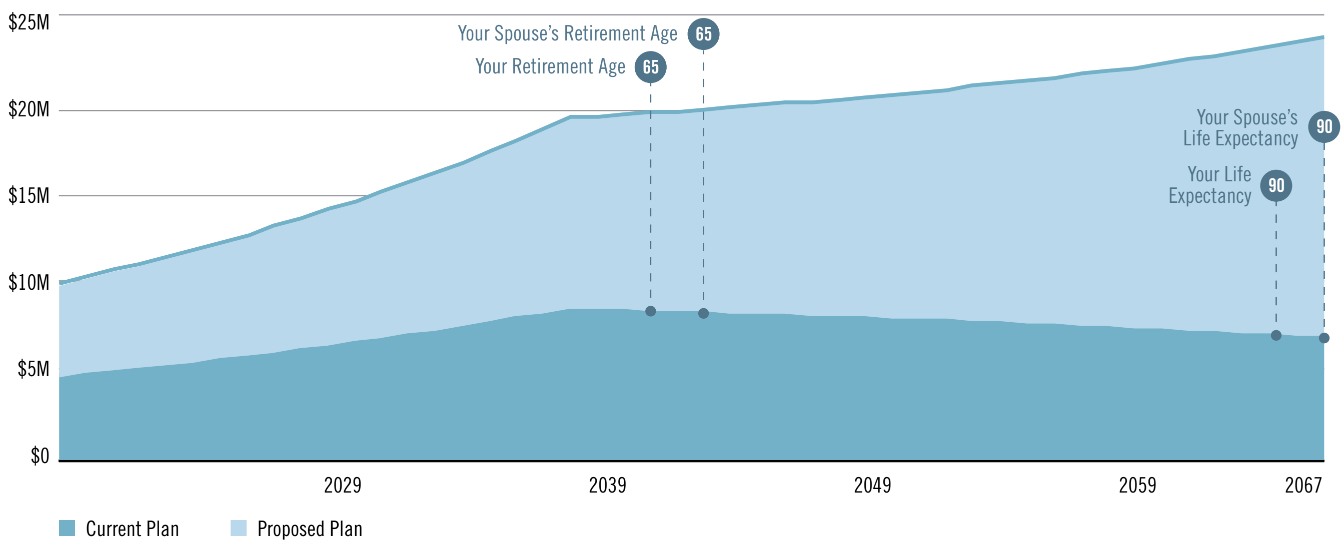
While it may seem impossible to predict your financial situation into the future, understanding your trajectory helps you design the roadmap for where you want to go.

With your balance sheet and cash flows in hand, we will use our proprietary financial planning application to run calculations that provide you with wealth projections under various circumstances. As your situation changes throughout your lifetime, you will be able to more easily assess where you are against your plans and adjust them as necessary.

Understanding Your Results

Will you be successful in reaching your goals? What changes may be necessary to achieve success? With the 360 view of your financial picture that you will gain from completing these steps, you'll be prepared to make well-informed decisions that move you closer to your goals.

Run Projections of Your Wealth to Inform Your Financial Roadmap



Take the Next Step: Build Your Financial Roadmap

With your goals articulated and your financial circumstances in clear focus, the next step is to create an actionable financial plan. We can work with you to develop your personal financial roadmap that lays out the path toward achieving your goals.

Our sophisticated financial planning approach provides you with a clear picture of your entire financial life, helping you envision each of your goals and illustrate your progress along the way. And, as part of this process, we will explore "what if" scenarios, such as "what if you'd like to retire early?" or "what if you purchase a vacation home?" You will have an understanding of the implications of these possibilities to help you make such important financial decisions.

SECTION 2

Essential Steps for Taking Care of Yourself and Your Family

SECTION
2

As you address your financial concerns during your lifetime, you should also address what happens if you die or lose capacity. No matter your financial circumstances, there are important estate planning documents everyone should have.

Estate Planning Documents for Everyone

Estate planning is not just for older generations. In fact, almost everyone should have basic documents in place.

These documents include a will, powers of attorney and a healthcare directive. They may also include a trust document and beneficiary designations. This is especially true if you have young children or other dependents, like parents or siblings who look to you for financial support.

The most important step is to put your documents in place now. You are never too young to be in control of your decisions, and the directions you provide now in your will or other documents can always be changed. But if you have no estate plan in place at all, the courts take control, and the legal processes can be costly and time-consuming for your beneficiaries.

Planning for Yourself in Case of Serious Injury or Incapacitation

Death is often the focus of estate planning. But it is just as important to put a plan in place to protect your assets and yourself if you become mentally or physically incapacitated during your lifetime.

Naming a Power of Attorney

Naming your spouse, adult child or other trusted individual as your agent under a durable power of attorney ("durable" means it is still effective even if you lose capacity) allows that person to take care of business for you in a variety of situations. For example, this person might be authorized to pay your medical bills, sign legal documents or apply for Medicare or Social Security on your behalf. If you are detained in a foreign country for some reason, your agent can obtain information about your situation from the US embassy in that country and handle business back at home until you return.

Appointing a power of attorney is crucial for those facing illness or old age. It can also be important for newly-minted adults whose parents can no longer readily or make decisions for them now that they have turned 18 and become legal adults.

Giving a Health Care Proxy Access and Guidance

Your health care proxy (another name for your agent under a durable power of attorney for health care) is more than the person who talks to your doctors while you are sedated after surgery or being held in the emergency room. Your health care proxy may also be the only one who can obtain information about your medical condition—information that privacy laws might otherwise prevent a doctor from sharing with your family members.

Having an agent appointed to make health care decisions for you is critical in making sure those decisions are made in a proper manner when you are not able to make them for yourself.

Planning for Your Family: Successfully Transferring Wealth

Effectively transferring your assets to your beneficiaries involves the interplay of several documents. Understanding how they work together is key to knowing what you need to do to put these plans in place, and having peace of mind that your property will be handled the way you want.

REVOCABLE TRUST

The Work Horse of Modern Estate Planning

In most US states, a revocable or "living" trust is the central document of an estate plan. A revocable trust can avoid the need for a probate court proceeding after your death. It can also facilitate the handling of your property during your lifetime in the event of incapacity.

With a revocable trust, you transfer title to your assets into your name as trustee. During your lifetime, you are the beneficiary of the trust and can deal with the trust property in the same manner as if the trust did not exist. You can revoke or amend the terms of the trust at any time.

If you lose capacity, the successor trustee you name in the trust instrument can take control of the trust property immediately to ensure it remains available for you. Upon your death, the trust property is distributed to the people and organizations you name in the trust instrument. And this is all accomplished without the cost, delay and publicity of a court proceeding.

A revocable trust may not be appropriate in all circumstances, but you should consider one if you:

- Are concerned about paying expenses or distributing assets to your heirs shortly after your death.
- Have assets that would be more difficult to manage if subject to court process or supervision over needed decisions.
- Want to maintain the privacy of information about your property interests and their disposition.
- Have a simple estate that you'd like to be handled most efficiently.

A WILL

Still Necessary, But May Not Be As Important As It Once Was

When you think of estate planning, the first, and maybe only document, most people think about is a will. A will remains a central and necessary document in all estate plans. But due to the advent of revocable trusts, the purpose of a will is not as broad as it once was.

Your will remains the legal document in which you typically name guardians for your minor children, making it an especially important document for young families. It is also typically the place to exercise any powers you may have to appoint (that is, direct the distribution of) property held in an irrevocable trust.

If you have a revocable trust, your will is usually a "pour-over" will, directing that any assets you may not have transferred into your name as trustee during your lifetime should be added to the trust following your death. If you do not have a revocable trust and you are comfortable requiring your heirs to go through a court proceeding at your death, your will can provide for a general distribution of your assets.

MOST IMPORTANTLY:
Keep Your Documents Up-to-Date

Your planning documents are only as good as the information in them. If your life changes and you need to name new beneficiaries, for example, update your documents immediately. Reviewing your instructions regularly can be critical in ensuring the assets pass on the way you intend.

TITLING YOUR ASSETS

An Essential Step

For a revocable trust to function effectively, the title to your assets must be held in your name as trustee (e.g., Jane Smith as trustee of the Smith Family Trust). If title to an asset is in your individual name (e.g., Jane Smith), a court proceeding may be necessary and the terms of your will control who receives the property, even if it is in your revocable trust. Even with a will or revocable trust, ultimately, the titling of your assets determines what happens to them when you die.

There are also other special forms of title that can control the disposition of an asset. For example, if the deed to your home indicates that you and your spouse own the property as "joint tenants with right of survivorship," your home will pass directly to your spouse upon your death without either going through a court proceeding or being subject to the terms of your revocable trust.

In the process of estate planning, it is critical to review the deeds, account statements and other documents of title for your property interests to ensure formal ownership of your property is accurate and aligned with your current intentions—especially if the property was purchased a long time ago or your family situation has changed.

NAMING BENEFICIARIES

Don't Overlook Life Insurance and Retirement Accounts

Like the title to your assets, beneficiary designations can take precedence over the terms of a will or trust. Usually, retirement accounts and insurance policies require you to name beneficiaries as part of the initial account paperwork. But you can change those beneficiary designations at any time and should always make sure your designations are aligned with the other terms of your estate plan.

Your insurance company or retirement account administrator should be able to provide you with a copy of your current beneficiary designations as well as the forms necessary to make any changes.

Being Sensitive to Tax-Sensitive Retirement Accounts

Retirement accounts are often tax-deferred or have other special tax characteristics. As you update your retirement account beneficiaries, you always want to be aware of the tax consequences of your beneficiaries receiving the accounts. For example, while a trust can be named as a beneficiary of a retirement account, it can come with tax sacrifices.

We always strongly recommend consulting with an estate planning or tax professional when reviewing or updating your beneficiary designations. The rules are complex, and mistakes can be costly.

Putting the Right Documents in Place for Transferring Your Assets

YOU ▸ YOUR SPOUSE

YOUR WILL
- Guardians
- Sentimental belongings
- Other valuables

YOUR TRUST
- Joint bank accounts
- Joint investment accounts
- Real estate
- Other property

YOUR BENEFICIARY DESIGNATIONS
- Retirement accounts
- Life insurance

CHILDREN

In Plain English: Estate Planning Terms Explained

Will A legal document that states your wishes for who receives your property and who becomes guardian of any minor children upon your death.

Executor The person responsible for carrying out the instructions in your will.

Power of Attorney A legal document that allows someone else to act on your behalf during your lifetime, typically including any period of incapacity. A power of attorney for healthcare decisions allows someone else to make healthcare decisions for you if you are not able to make those decisions for yourself.

Agent The person appointed under a power of attorney to act on your behalf.

Healthcare Directive A legal document that provides instructions to your agent for healthcare decisions on matters such as pain alleviation and life-sustaining treatments. This is often called a "living will"—that is, a document expressing your wishes for while you are living.

Revocable Trust Like a will, a revocable trust states your wishes for who receives your property upon your death. The difference is a revocable trust can enable those wishes to be carried out without the cost and delay of a probate court proceeding. A revocable trust also can facilitate the handling of your property during any period of incapacity.

Trustor The person who creates a trust. You are the trustor, sometimes called grantor, of your revocable trust.

Trustee The person or company responsible for the property held in a trust. Typically, you would be trustee of your revocable trust during your lifetime. You will also name a person or company to serve as a successor trustee and take over upon your death.

Beneficiary The person entitled to all or some portion of the property held in a trust, your 401(k) or other retirement assets. Typically, you are the beneficiary of your revocable trust during your lifetime. Upon your death, the beneficiaries are the people and entities that you name.

Beneficiary Designation A document names the people or entities that receive the proceeds of an account or other property interest upon your death. The distribution of retirement plans and life insurance policies upon your death are generally controlled by a beneficiary designation rather than the terms of your will or living trust.

Selecting Your Trustee: Who Is Best Suited to Carry Out Your Plans?

Second only to deciding who receives your property, the most important decision in your estate plan is who will make sure your plans are carried out. The answer to this question can mean the difference between a peaceful, efficient handling of your estate, and one wrought with challenges.

People often choose a family member or a close friend to be their executor or trustee. But if the situation is more complex or assets will be distributed over a longer period, a professional fiduciary, like Fiduciary Trust, can be a good choice.

The Difference Between an Executor and a Trustee

The roles of executor and trustee can be filled by separate people, but in most cases the same individual or professional is appointed as both executor and trustee.

EXECUTOR	TRUSTEE
Document The executor is named in your will.	**Document** Your trustee is named in your trust instrument.
Duties If you have assets held in your individual name at death, the executor will be appointed by the court to: • Marshall your assets • Determine and pay all your personal bills, debts, taxes and other expenses • Pay taxes and other reasonable expenses for assets held in your individual name and resolve your personal affairs, including funeral costs • Distribute the assets in accordance with your will	**Duties** • The trustee manages and distributes the property held in the trust in accordance with its terms. • If all your assets are held in the trust, the trustee will also perform all the responsibilities of an executor. • Depending on the terms of your trust, the trustee may have discretion to pay or withhold benefits to your spouse, children or others.
Duration The job ends when the estate is closed and the executor is discharged by the court.	**Duration** If assets are to remain in trust for a period, the trustee will continue to be responsible for managing the assets and distributing them to your beneficiaries according to the parameters you have set.

A Family Member or a Professional Trustee? Weighing the Pros and Cons

Your executor and trustee will be responsible for valuing your estate, gathering your assets and distributing your assets according to the terms of your will and trust documents. Duties also include assessing and paying debts and liabilities, filing and paying taxes, arranging for funeral expenses and ensuring remaining assets are distributed correctly.

This job can last for many years, even decades, if assets are to remain in trust over time. The trustee will continue to be responsible for managing the assets and distributing them to your beneficiaries according to the parameters you have set.

You will need to weigh these duties against the abilities and skills of the individual or professional you are considering.

Qualities to Look for in an Executor or Trustee

The individual or professional you appoint for these important roles should:

1. Have a strong skillset in handling financial affairs

To do the job well, executors and trustees should be prepared for a large amount of time-consuming work. They must be extremely organized record-keepers and have significant knowledge about financial matters. Surrounding themselves with specialized experts is critical, so they will need to be able to work with and manage various professionals including attorneys, accountants and investment managers.

At Fiduciary Trust, we offer many of these essential services ourselves as part of global investment management company with in-house trusts and estates attorneys and tax specialists.

2. Be objective, yet personal, in decision making

If your trust document includes discretionary provisions—such as funds earmarked for educational expenses or to buy a first home—the trustee will need to decide if the requests made by your beneficiaries meet the trust's requirements for distributing the assets. For example, does a new car for transportation to school fall under educational expenses, or does it qualify as support? If the new home is extravagant, should funds be distributed for a down payment?

These kinds of situations require personal attention, both to the beneficiary's situation and to your intentions, as the decision must be made impartially and true to your wishes for your family.

3. Be willing to be personally liable

The risk of personal legal liability—even if the trustee is not paid for their work—goes along with being a fiduciary. Under the law, a trustee has the fiduciary duty to be loyal, prudent and always act in the best interests of the beneficiaries. A trustee can be held personally liable if they breach these duties, even unintentionally. Improper accounting, mishandling of assets, conflicts of interest, poor investment decisions and failing to achieve the most advantageous tax savings are all reasons an unhappy beneficiary may seek legal action against the trustee.

Achieving Peace of Mind

At the end of the day, your decision should provide you with peace of mind knowing your affairs will be handled in the way you planned. If you are having doubts, that often means it's time to consult a professional fiduciary rather than risk strife in the family or mismanagement of the trust assets.

SECTION 3

Gifting to Children and Grandchildren

SECTION
3

The central question of most estate plans is who receives your property when you die. For most families, the answer to that question involves your descendants. If that's true, typically the next question is whether to also make gifts to your children or grandchildren during your lifetime.

Deciding If Lifetime Gifting Makes Sense for You

If you believe your estate might owe estate tax, gifting assets to your heirs throughout your life, rather than waiting until death, can be a powerful way to reduce the amount of taxes ultimately paid by your estate.

Even if taxes are not your primary concern, making gifts during your lifetime can allow your children to enjoy your gifts earlier and may make a great impact on their lives. It also provides you with the benefit of seeing your loved ones enjoy your gifts.

A well-thought-out financial plan can help you develop a gifting strategy that balances potential estate tax savings achieved by giving away assets with your own income needs and living expenses during your lifetime.

Will Estate Taxes Apply?

In 2019, an individual can transfer a total of $11.4 million at death or during their lifetime free from federal gift and estate taxes. Together, a married couple can transfer twice that amount—$22.8 million—free of tax.

If your assets total more than the exemption amount, the transfer price tag is high. Your estate will pay 40% in federal gift and estate tax for any assets transferred above the federal exemption.

In addition, if you're giving assets to grandchildren (or future generations), an additional layer of tax called the generation-skipping transfer (GST) tax may apply at 40%.

And it's important to keep in mind that today's tax-free transfer amount is set to expire after 2025. That means it is possible that the amount you can transfer free of estate tax may be lower in the future. If a review of your plan reveals that you can afford to make gifts, it may make sense to make those gifts soon, while today's record-high transfer tax exemption is in place.

Tax-Free Gifting Opportunities

The current tax law allows you to make certain gifts that don't count against your gift and estate tax exemption amount. They also don't require filing a gift tax return, so maximizing these "free" gifts is typically the first place to start with lifetime gifting.

Annual Exclusion Gifts

The annual exclusion allows you to make tax-free gifts up to a specified dollar amount to an unlimited number of individuals each year. For 2019, the annual exclusion amount is $15,000 for individuals and $30,000 for married couples. A couple with two children and three grandchildren would be able to make annual exclusions to each of them for a total $150,000 of tax-free gifts each year. At a 40% estate tax, that could be up to $60,000 of tax savings each year.

Over time, a regular practice of making these annual exclusion gifts each year can be very simple yet powerful tax-saving technique. It is also an effective way to gradually help children and grandchildren understand and appreciate their family's wealth.

Medical and Educational Gifts

Another way to make tax-free gifts is to make direct payment for a child's or grandchild's medical or educational expenses. Payments made directly to a medical services provider (e.g., doctor, hospital) or to an educational institution for tuition are not treated as taxable gifts. Like the annual exclusion gifts, these payments do not use any of your gift and estate tax exemption and do not require the filing of a gift tax return.

While tax-free annual exclusion gifts and medical and educational payments are typically made to children and grandchildren, the same tax rules apply to gifts and payment for the benefit of other people, including children-in-law and grandchildren-in-law, parents, friends and other family members.

Making Larger Gifts

Large gifts typically can bring larger tax savings, but they also can come with a cost. If you make gifts above the annual exclusion amount, you will need to file a gift tax return, and these gifts will count toward your estate tax exemption amount. Once your estate tax exemption amount is reached, further gifts—either during your lifetime or at death—will be taxed at 40%.

But in appropriate circumstances, larger gifts can still yield large tax savings by:

- Removing future appreciation in the value of the gifted property from your estate.
- Enabling you to make use of a variety of gifting strategies and structures, such as qualified personal residence trusts, installment sales and gifts of partial interests that leverage actuarial factors and valuation considerations to achieve additional savings.
- Capitalizing on current gift and estate tax rules that make paying gift tax during your lifetime less expensive than paying estate tax at your death.

Giving cash or other assets that have little or no built-in gains is the most efficient way to gift during your lifetime. There are also techniques such as grantor retained annuity trusts and installment sales that can be structured to limit or even eliminate any negative gift tax consequences.

We can help you determine whether to make lifetime gifts, and help you make decisions about which assets to give first.

Cost Basis Step-Up: An Important Consideration

From a tax perspective, a downside of gifting assets during your lifetime is that assets that have appreciated in value do not receive a "step-up" income tax basis. This means if you gift appreciated property or securities, the recipient will be subject to capital gains tax on the built-in appreciation when they sell the assets.

In contrast, if your heirs inherit the property at your death, the cost basis will be "stepped up" to its then-current market value. Your heirs will only pay capital gains tax on any appreciation that occurs after they receive the property.

Due to this trade-off, it is important to run the numbers before making larger taxable gifts to decide which assets to give, and when to give them. We can help you do the analysis to determine if larger gifts are right for you.

Strategies for Gifting to Children and Grandchildren

Many families still struggle with the practical implications of making lifetime gifts, even after they recognize the financial benefits. They are uncertain about giving a significant amount of property to a minor, who sometimes may only be an infant, or to a young adult still in the formative stages of developing a career, or even to a mature adult who may not be equipped to handle his or her own finances.

Fortunately, several savings vehicles and other structures provide the financial benefits of gifting while addressing these practical concerns.

529 College Savings Plans

A 529 College Savings Plan is like a retirement plan for education. The main advantage of a 529 plan is that the money grows in your account free of federal income tax. Under federal tax rules, the money must be used for qualified higher-education expenses, such as tuition, books and room and board. In addition, up to $10,000 a year can be used for tuition for K-12 education. If the money is used for other purposes, withdrawals are subject to income taxes and a 10% penalty on the earnings.

With a 529 plan, it is also possible to front-load five years of annual exclusion gift all at once and, for example, contribute $75,000 ($150,000 from a couple) to an account in year one rather than spreading the gifts over five years.

UTMAs

Uniform Transfer to Minor Act accounts are like normal individual bank or investment accounts, except for the fact that an adult custodian holds title and control of the account for the benefit of the minor until he or she reaches the age of 18 or 21. The downside of an UTMA account is that once the child reaches age 18 or 21, the account is transferred fully to the child and not restricted in any way.

The advantage of UTMA accounts is that they can hold any type of property and are relatively simple to create. For income tax purposes, property held in an UTMA account is treated as owned by the child, so earnings are generally taxed at the child's—usually lower—tax rate, subject to the so-called "kiddie tax." Since UTMAs are an asset of the child, they may negatively impact the child's eligibility for financial aid.

Trusts

For most families, lifetime gifts to children and grandchildren involve trusts. There is no restriction on the type of property that can be held in a trust. And trusts offer a great deal of flexibility as to when a child or grandchild ultimately will receive the benefits of the trust.

Special tax rules can enable you to make use of trusts in connection with annual exclusion gifts. These rules may require the beneficiary to have the power to withdraw trust property for a period (for example, 30 days after a contribution to the trust or after the beneficiary reaches the age of 21). If the annual exclusion is not a concern, the terms of a trust can be structured however you like.

Trusts do not provide the tax advantage of 529 plans in terms of providing tax-free growth, and like UTMAs, they can be considered as an asset of the child with respect to financial aid. But assets held in trust can be shielded from creditors and arguably provide the best way to ensure a family's wealth remains with the family.

Delaware Dynasty Trusts

If you would like to secure assets for your family to benefit multiple generations, a Delaware dynasty trust can allow exactly that. A dynasty trust is designed to last in perpetuity with assets to be distributed to the beneficiaries in the future generations of your family based on the terms you define.

The trust is generally funded with an amount up to your maximum available generation-skipping transfer (GST) tax exemption. As a result, the trust property can pass from generation to generation, free of estate or GST tax.

Which Strategy Is Right for You?

If you believe your estate may exceed the estate tax exemption amount, you generally should consider making lifetime gifts. Annual exclusion gifts and payments of medical and educational expenses can provide easy tax savings, if you have cash or other property available to give.

If you are comfortable with a child or grandchild receiving assets when they reach the age of 18 or 21, you can make gifts to an UTMA account with little administrative hassle. If it seems likely they will need funds for college, it usually makes sense to take advantage of the tax incentives of 529 plans, including tax-free growth and the ability to front-load gifts.

Some families may stop at funding college and placing whatever they feel comfortable with a minor obtaining at age 18 or 21 in an UTMA account. But it is important to be aware that significant tax benefits can exist in making further gifts, and that trusts can be used to address many of the practical concerns as well as provide additional tax benefits, as with a Delaware dynasty trust or the tax planning opportunities involved in larger gifts.

Determining the strategies that will be the best fit for you will depend on your unique situation. Our trusts and estates professionals are always available to help you make the right choice in context of your goals and financial circumstances, and to make sure you're surrounded by the right professionals to evaluate and implement your plans.

Comparing Common Gifting Strategies

Gifting often evolves from a single contribution to longer-term commitments that are part of a formal wealth transition plan. This overview of common strategies, from the most basic to the complex, can help you determine which giving strategies can be most effective in achieving your goals.

	529 Plans	UTMAs	Trusts
Tax Benefits	Tax-free growth if used for qualified higher education expenses; ability to front-load five years of annual exclusion gifts	Income may be taxed at the child's presumably lower tax rate, subject to the kiddie tax	Can be exempt from estate and GST tax if GST tax exemption is applied; income may be shifted to child if distributions are made, subject to kiddie tax
Set Up	Simple application and account opening	Simple application and account opening	Attorney is needed to prepare trust document and any transfer documents
Administrative Costs	Maintenance and administration costs may be charged by plan administrator	Little to no administrative costs	Trustee must retain records and could be required to prepare accountings; separate tax filings for the trust may be necessary
Control	The owner can be the parent and the account would not be included in the parent's estate	The custodian can be the parent, but the account would be included in the parent's estate	Trustee has control (parent generally should not be trustee)
Investment Choices	Limited	Flexible	Flexible
Age of Distribution	There is no set age, but non-qualified distributions are subject to tax penalty	Age 18 or 21, depending on account terms	Flexible as designated by you in the trust document; can last in perpetuity in Delaware
Distribution Terms	Qualified education expenses include tuition, room, board, fees and books for higher education, and up to $10,000 per year for K-12 tuition	The custodian can withdraw funds for the child's benefit for any purpose; once the child is over 18 or 21 they have complete access to the funds	Flexible as designated by you in the trust document (limited withdrawal powers are necessary to qualify for the annual exclusion)

SECTION 4

Financial Steps to Take After the Death of a Spouse

SECTION
4

The stress and heartache of losing a spouse can make tasks like managing financial obligations seem almost impossible. But it is also a crucial time to take hold of your financial plan.

A strong team of professionals can take many of the burdens off your shoulders and set you on solid ground as you move forward.

Managing Financial Affairs After Loss

Losing a spouse or loved one is a difficult time. Yet this is also a period when many important financial decisions must be made. These decisions range from how you complete paperwork to change ownership of assets and collect survivorship benefits, to selling property, making tax elections and updating your estate plan.

The first step to accomplishing these tasks is to surround yourself with a team of professional advisors to take many of the burdens off your shoulders and provide guidance on the decisions only you can make.

We Are Here to Help

At Fiduciary Trust, we work with you to make this process as smooth as possible. Our estate and trust administrators can help take care of many immediate and long-term responsibilities, like gathering assets, paying bills, making tax filings and sending legal notices, allowing you to focus on yourself and your family during an already stressful time.

Our wealth managers and tax professionals can provide important guidance throughout the process, and help you develop a sound plan for your finances into the future.

Arranging Your Finances

Even when you're working with a team of professionals, it's important to take stock and understand what needs to occur to move into the next stage of your financial life.

Locating documents and assets

While you always want to have a handle on what you own, after the loss of a loved one, it's important to make sure you understand everything they may own too, as well as the documents that go along with those assets. While most people know it is important to obtain several certified copies of the death certificate, there are several other important documents that should be gathered at the same time. These include birth certificates, military discharge papers, marriage certificates, real estate titles and current statements for bank, brokerage and retirement accounts.

Traditionally, you would check your mail, safe deposit box and personal files for these documents. These days, you may also need to check email, computer files, cloud-based databases and financial or tax preparation applications to make sure you're not missing anything.

Transferring Assets to Your Name

Once all documents and assets have been located and accounted for, the next step is to make sure you transfer assets into your name or otherwise update title to assets as appropriate. This involves some legwork, but the legwork increases the longer you delay.

Retirement accounts and life insurance

If you were listed as the beneficiary of your spouse's IRA, 401(k) or other tax-advantaged retirement account, the custodian will need direction for distributing the assets. Depending on your needs and tax situation, your advisor may suggest leaving the retirement plan assets in your spouse's 401(k) account, rolling them directly into your own IRA, or taking a lump sum distribution. Similarly, if your spouse had any life insurance policy, you should contact the life insurance company to ensure benefits are paid out or ownership of the policy is transferred as appropriate.

Investment and bank accounts

If you had joint investment or bank accounts with your spouse, these often will automatically pass to you. You will need to change the title on these accounts into your name. If your spouse had accounts held only in his or her name, those assets may need to go through the probate process depending on the amount and the laws of your state.

Safe deposit box

In most states, if the box was rented only in the name of your spouse, it will require a court order to open the box. Only the will or any other materials pertaining to the death can be removed before the will has been probated.

Claiming Benefits

You also want to make sure you claim any benefits or compensation you may be entitled from the government or your spouse's employer.

Contact your spouse's employer

If your spouse was employed, the employer will need instructions on where to send final paychecks and other compensation. This is also an opportunity to inquire about any assets or benefits you may be entitled to.

Apply for Social Security benefits

If your spouse was receiving Social Security benefits, you should contact the Social Security Administration to determine if you qualify to receive a portion of those benefits. Survivor benefits are typically available after a surviving spouse reaches the age of 60.

Call Veterans Affairs

If your spouse was a US war veteran, you may be entitled to survivor benefits from the Veterans Affairs Administration. You will typically need your spouse's VA number and dates of active service.

Settling Outstanding Debts

While you gather your spouse's assets, you also need to determine how to handle any debts. Debts owed by your spouse will be the responsibility of their estate and payment is generally coordinated as part of the estate settlement process. However, you should be mindful to ensure payments are current on any joint debt, particularly mortgage payments and utility or phone bills, to keep a good credit rating.

Credit cards held exclusively in the name of your spouse should be canceled. Any payments due on these credit cards should be paid by the estate. If you have credit cards that were issued in both your names, continue to make payments due on these cards to keep your good credit rating. Notify the credit card companies that your spouse is deceased and that the card should list your name only.

Preserving Personal Property

It is important to preserve your spouse's personal property, including any personal items or mementos that were promised to a child or another relative. This may include items such as furniture, antiques, artwork, clothing, photographs, jewelry and written documents like journals, diaries and personal correspondence. It is usually best to be proactive about delivering any gifts of specific items of personal property, as sentimental attachments often can lead to tension over even the smallest of things.

Considering Tax-Reduction Strategies

Your professionals should be able to guide you in preparing the necessary tax returns as part of the estate settlement process and implementing the different tax strategies that may be available, including:

Disclaiming assets

In some cases, your tax advisor may recommend "disclaiming" assets by diverting them into a tax-advantaged trust or down to children or lower generations. The deadline for disclaiming assets varies by state, but is usually within nine months of your spouse's death.

Portability elections

If your spouse's estate does not claim the entire federal estate tax exemption, it may be possible to apply the unused portion of the exemption to your own estate. But first your spouse's estate will need to make a "portability election" on its estate tax return, which is generally required within nine months. This strategy can be beneficial for spouses who inherit real estate, business interests or other assets that appreciate over time.

Income tax deductions

If you have a dependent child or step-child, your tax advisor may recommend retaining the benefits of the "married filing jointly" status for the two years following the death of your spouse.

Developing a Financial Plan for Your Future

Although it is sometimes tempting, it's generally best not to make permanent significant financial decisions, such as selling your home, moving or changing jobs, immediately after the death of a spouse. You will need some time and guidance to review your situation before you can make these decisions clearly.

The key after you've taken stock of your financial affairs is to develop a long-term financial plan for yourself that reflects your new situation. This includes understanding where funds will come from to pay your living expenses, being tax efficient in your decision-making, reviewing your estate plan as well as your powers of attorney and healthcare directives to make sure they are accurate and up-to-date, and evaluating your overall asset allocation to ensure it is appropriate for your plan.

At Fiduciary Trust, we can help make sure you have all these bases covered, and have the understanding and direction to help you reach your next set of financial goals.

"Being a beneficiary comes with rewards and responsibilities. Remaining actively involved and working with a professional can put you on the right path."

SECTION 5

Inheriting Wealth: What It Means to Be a Beneficiary

SECTION 5

An inheritance is often a bittersweet occurrence, both because it often means we’ve lost someone we love, and because it can be a confusing and complicated process.

We can help you create a roadmap for managing and best using your wealth for yourself and your family today and to benefit future generations.

Inheriting Wealth, Either Outright or in Trust

In most cases, an inheritance means financial assets like cash, stocks, bonds or an ownership stake in a business. But it can also include physical assets like artwork, precious metals or real estate, or intellectual property such as a trademark, patent or copyrighted material.

These assets can be inherited outright, allowing you to take ownership immediately, or placed in a trust, with assets maintained and distributed over time according to the terms specified in the trust document.

Developing a Plan for Your New Financial Circumstances

Whichever way you receive an inheritance, either outright or in trust, someone has made a conscious decision to leave you something of value. Whether it is a large estate or a personal item of sentimental value, you have been entrusted with someone's legacy and possessions that often represent a lifetime of hard work, dedication and planning.

As you become part of someone else's plan, it is a great time to focus on your own planning as well.

At Fiduciary Trust, we can help you develop an investment strategy and financial plan to help protect your inheritance from taxes and creditors, and provide potential growth to benefit future generations.

You Are a Beneficiary of a Trust. Now What?

You have certain rights as a beneficiary of assets that are held in a trust. These include the right to examine the trust document which spells out the exact terms and conditions of how the trust should be managed and how its assets should be distributed.

Beneficiaries often have questions of the trustee regarding how they can use and access the trust assets.

Q. What are my rights as a trust beneficiary?

Most importantly, all beneficiaries have the right to know exactly how the trust is being managed. You are entitled to an accounting of all income, expenses and distributions from the trust and periodic updates on the holdings and performance of investment accounts.

Trustees are usually required to provide a financial report to beneficiaries annually, but that may vary, depending on the terms of the trust. If you believe your trustee is not acting responsibly, you also have the right to petition the court for the removal and replacement of the trustee.

Q. When will I receive distributions?

Trusts are complex legal entities that can be constructed in a variety of ways that will influence the frequency and size of your distributions. We often see trusts structured in a way that gives the trustee the discretion to distribute all income earned by the trust each year.

Trusts may also include provisions that allow you to request special distributions for large expenses. It's usually up to the discretion of the trustee to determine if your request meets the terms of the trust document.

In other trusts, the trustee may have full discretion to make distributions, but often distributions can only be made for specific purposes like education and health. After meeting with your trustee, you should have a clear understanding of the circumstances under which you will receive income or principal, which are usually treated differently.

Q. How long will the trust continue?

The duration of a trust depends on the terms of the trust and the needs of the beneficiaries. Many trusts are designed to last for the entire life of the beneficiary while others may terminate at a pre-determined time. For example, the trust may provide instructions for the trustee to distribute one-third of the assets when the beneficiary reaches age 35, the next third at age 40 and the remaining assets at age 45. Then the trust would be dissolved.

If a trust is not required to terminate at a set time, the life expectancy of the trust will likely depend on your lifestyle, spending habits and how heavily you rely on the trust as a source of income. Smaller distributions, less frequent "special requests," strong investment performance and the effects of compounded growth can extend the trust's lifespan, possibly for multiple generations.

Q. Who is responsible for managing the trust assets?

The trustee has a legal obligation to manage the day-to-day administration of the trust, maintain records and invest the trust's assets in a responsible manner.

As a beneficiary, it's important to have ongoing conversations with the trustee about the investment objective of the trust, especially when there is a shift in the trusteeship or beneficiaries. For example, if the assets were previously being managed for an elderly parent or grandparent, its investment strategy may be too conservative for a younger beneficiary and the investment strategy may need to be revised. Also, if the trust allows for flexibility in distributions, communicating with your trustee about how much money you will be requesting from the trust and when it will be distributed gives your portfolio managers time to make the best decisions about what to sell and when to sell it if the trust needs to raise cash.

Q. Are distributions from the trust subject to personal income taxes?

The taxation of trust distributions can be complicated. In general, beneficiaries are not required to pay taxes on distributions that are considered part of the trust's principal (which was presumably taxed before it was put in the trust) but are responsible for paying taxes on distributions to the extent they represent the ordinary income of the trust. Capital gains taxes on the sale of trust property are typically paid by the trust.

We can help you evaluate the income tax impact of distributions you receive from a trust.

Q. Will I pay estate taxes on my inheritance?

If the estate was subject to estate tax, these taxes would usually be paid by the estate before you received your inheritance.

If assets in the estate exceeded the federal estate tax exemption amount, any assets transferred above this amount would be subject to a 40% estate tax. In addition, 20 states and the District of Colombia currently impose their own estate tax. Rates can be as high as 20% and the exemption amounts may be significantly lower than the federal level estate tax.

Q. What if there are multiple beneficiaries of a trust with different goals?

It is not uncommon for a trust to have more than one beneficiary. If beneficiaries span multiple generations, there may also be conflicting interests—current beneficiaries may want maximum income, while future (remainder) beneficiaries want the trust to appreciate over the long term.

To reconcile these opposing viewpoints, we recommend trust documents offer a degree of flexibility, allowing us to invest and distribute assets in a manner that balances the desires of both types of beneficiaries.

Lacking that flexibility, such as when the trust prohibits the distribution of principal, we fall back on the terms of current trust law to address this "income versus growth" conflict. Most states allow the trustee to recharacterize income and principal. This can provide income beneficiaries with a reasonable level of income while investing most of the principal for the remainder beneficiaries.

Q. How will I know if I'm overspending?

In many cases, a trust is a significant financial resource that's meant to support the beneficiary for a lifetime. The trust document may even instruct the trustee to consider beneficiaries' other financial resources before making distributions of the trust's principal to help ensure assets last.

At Fiduciary Trust, we work with beneficiaries on planning strategies to prevent overspending and preserve the trust. This entails a thorough evaluation of the beneficiary's current standard of living, including current income and expenses, and detailed conversations about the lifestyle and spending patterns you expect in the years ahead.

TAKE THE FIRST STEP

Start with a conversation with your Fiduciary Trust relationship manager. We can help you develop your step-by-step comprehensive wealth management plan. The roadmap for your financial future starts here.

GROWING AND PROTECTING WEALTH FOR GENERATIONS

Fiduciary Trust is a wealth management firm founded in 1931 by families for families, with a singular focus on growing and protecting your wealth through generations. We work closely with individuals, families and foundations to build and manage personalized investment portfolios, and to develop estate plans that extend wealth to future generations.

Wealth Planning | Wealth Administration | Investment Management and Solutions

Fiduciary Trust International

Fiduciary Trust International Offices

New York, NY
(877) 384-1111

Arlington, VA
(703) 647-4132

Boca Raton, FL
(561) 988-8460

Coral Gables, FL
(800) 618-1260

Fort Lauderdale, FL
(561) 988-8460

Los Angeles, CA
(800) 421-9683

San Mateo, CA
(877) 284-2697

St. Petersburg, FL
(800) 618-1260

Washington, DC
(888) 621-3464

Wilmington, DE
(866) 398-7414

FTCI (Cayman) Ltd.

Grand Cayman
(877) 384-1111

(212) 632-3000
(calling from outside the US)

fiduciarytrust.com

Securities, mutual funds and other non-deposit investments:

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Fiduciary Trust Company International and subsidiaries (doing business as Fiduciary Trust International) and FTCI (Cayman) Ltd. are part of the Franklin Templeton Investments family of companies.

This communication is intended solely to provide general information. The information and opinions stated are as of January 1, 2019, unless otherwise noted, and may change without notice. The information and opinions do not represent a complete analysis of every material fact. Statements of fact have been obtained from sources deemed reliable, but no representation is made as to their completeness or accuracy. The opinions expressed are not intended as individual investment, tax or estate planning advice or as a recommendation of any particular security, strategy or investment product. Please consult your personal advisor to determine whether this information may be appropriate for you. This information is provided solely for insight into our general management philosophy and process. **Historical performance does not guarantee future results and results may differ over future time periods.**

IRS Circular 230 Notice: Pursuant to relevant US Treasury regulations, we inform you that any tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. You should seek advice based on your particular circumstances from your tax advisor.

FTCI GDWP 04/19