INTEGRATED GENEROSITY

integrated

generosity

for faith based families

MOVING FROM INVOLUNTARY PHILANTHROPY TOWARD
INTENTIONAL STEWARDSHIP AND DIRECTED GENEROSITY

WHITEPAPER #3:

Hockey Sticks, High Net-Worth Permission Slips, and Achieving Maximum Impact for Smaller Estates

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CHAPTER 7

Hockey Sticks, High Net-Worth Permission Slips, and Achieving Maximum Impact for Smaller Estates

This chapter describes the application of several financial strategies and "tools" that all fit nicely in the "toolbox" of being a good manager (steward) of God's blessings in your life and becoming more generous toward those causes He has placed on your heart. Before and during the research involved for this book, I read numerous opinions from Christian authors on the topic of money and wealth, some of which were of the opinion that you should be of such a high degree of faith in God that you minimize the use of prudent risk management, including various forms of insurance. In the context of the Integrated Generosity™ approach, I could take both sides of a debate as to whether embracing and utilizing the least measure of any risk mitigation strategy and trusting fully in God is a practical approach or not. After all, if the counsel that you seek includes (as it should) different facets of risk management and asset protection, then insurance of many types will be involved and will be appropriate. To blindly ignore prudent measures that are appropriate is not good stewardship in respect of the valuables God has placed in your care.

On this note (not being blind to tools that have been placed in your path), you may have heard the story of the faithful believer whose home was in the path of torrential flood waters. With many areas of Texas having been recently ravaged by floodwaters, with 2015 being the wettest spring on record, this is a timely and relevant reminder. As the floodwaters rose, the man was standing on his porch when neighbors in a rowboat came by and offered him a way out. "No" came his response, "I am waiting on the Lord to deliver me from this disaster." As the flood waters enveloped the first story of his house, he was at a second story window when local police in a power boat came by with the same offer of an escape from the rising waters, followed by the same rebuttal. The waters continued to rise, and as he was sitting at the peak of his roof, a Coast Guard helicopter arrived with his last chance for survival. Again he waived them off, indicating that he was trusting in God for his rescue and salvation. A few minutes later, as the waters completely covered his house, this faithful man drowned in the floodwaters. When he got to heaven, he asked “God, why did you forsake me, and allow me to drown?” God’s reply was, “I sent a rowboat, a motorboat, and a helicopter to take you out of the flood—what more did you want me to do?”

Sometimes, we have a lifetime to prepare for the inevitable, but in some cases, such as those lost in the Texas floods, the end comes unexpectedly. While we have a need and should be prepared, in a spiritual sense, for what comes next after we are gone, we also have a responsibility from a financial sense to be as prepared as we can be, wisely utilizing all of the tools that God has placed at our disposal. We become the best possible stewards with that which God has entrusted us. This applies to all types of appropriate estate planning and asset protection strategies, as well as prudent uses of life insurance, be that minimum or maximum amounts, paid for outright or premium financed. This is not to say that any of the other authors and experts are wrong in their view on money, wealth, and stewardship. From a standpoint of supporting one perspective or another from scripture, it is possible to do both. Anyone reading this *should* do additional research, both from a biblical perspective and from a modern day “tools and techniques” perspective, to find an outcome that they are comfortable with so that when that day comes, they will hear, *“Well done, thou good and faithful servant.”*

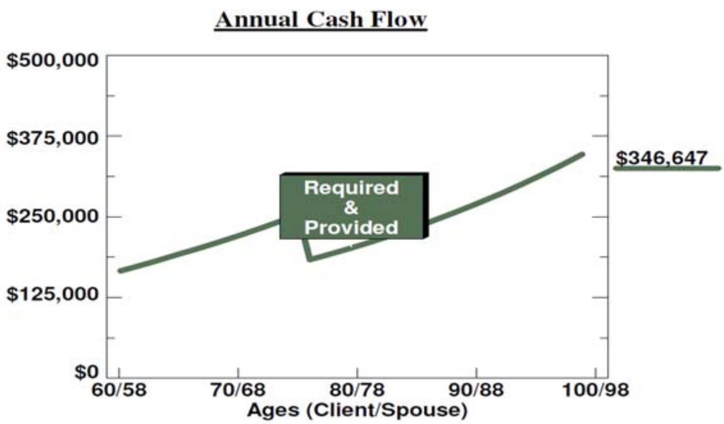
Hockey Sticks

In the process of helping our clients understand what future years may look like from a standpoint of the various factors that affect the growth dynamics of an estate, our firm utilizes a specific retirement cash flow and estate growth software program, which allows us to quickly validate for most clients that they need not worry about running out of money. I was in the original DOS Beta test user group for this software over twenty years ago, and it is now the Windows 12.0 version of the Wealthy and Wise® software produced by Insmark, Inc. When the software was originally developed, it was intended to illustrate the wisdom and efficiency of maximizing lifetime gifts for high net-worth families. Over the years, we have found it to be quite effective in relieving the primary worry of running out of money, which many retirees and business owners have, regardless of estate size.

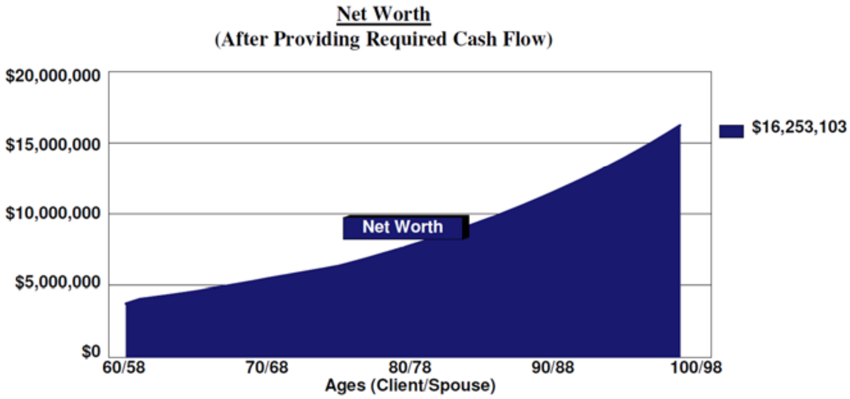
Over the years, in planning engagements with estates of all sizes where these types of projections are utilized, more than 80% of the projections we have completed result in a "Hockey Stick" estate growth outcome.

Typically, we use very conservative, baseline assumptions for inflation and asset growth in the financial modeling software. Further, we ask clients to be as excessive as they feel comfortable in estimating their lifestyle expenditures. We pose the question, "What is the *most* you can see yourself spending per year on your lifestyle?" which is then factored into the calculations. The result is an estate growth projection that is net of required cash flow, something that is often overlooked in estate growth projections. Even with these conservative assumptions, the resulting estate growth over twenty, thirty, and forty years often reflects a fairly significant asset and wealth growth "hockey stick"—a dramatic increase in assets over the years leading up to and beyond life expectancy represented in both graphical and numeric formats.

Below is an example of this from a report for a couple who is less than five years away from entering their retirement years:



As you can see in the Cash Flow graph above, your liquid assets are sufficient to provide withdrawals to meet your required after tax cash flow in all years illustrated. The graph below shows your remaining total Net Worth.



The above graphics are from Wealthy and Wise® published by InsMark, Inc., San Ramon CA, 94583

> *As one client couple reflected when faced with the reality of significant growth in their estate, "Mark, I don't believe that anywhere in our stated financial objectives did we indicate the desire to be the richest people in the cemetery." We were like-minded that we needed to develop an* intentional strategy *to maximize the impact of their accumulated wealth while they were both living.*

The above projection reflects 5% growth of financial assets and a 3% rate of inflation. The dip in cash flow above is the point where the residence mortgage is paid off. In this particular case, the couple has no children and a present estate plan that leaves everything to charity. Thus, estate taxes were not an issue, nor was their estate of a size where it ever would be. One of their main, pressing questions was, "beginning at age sixty-five, and continuing over the following twenty years, how much can we afford to spend on ourselves, and how much can we give away to the causes and ministries we care about?" With the click of one button, the answer came back:

- Spending on themselves: $112,198
- Giving to charity: $155,831

For this couple, the ability to identify their giving capacity amounted to a permission slip of sorts (more on that in a moment). Quantifying what is otherwise surplus capacity that will not likely be spent or consumed during life to identify—

initially and on an ongoing basis—the amount that can be moved from the sharecropper field into the owner-operator and the sovereign wealth fields is both empowering and liberating for most families with any degree of wealth. In all too many situations, there is an imbalance of time spent in growing wealth versus the necessary amount of time and attention spent in the areas of planning and preservation of wealth. This exercise is often the starting line.

As one client couple reflected when faced with the reality of significant growth in their estate, "*Mark, I don't believe that anywhere in our stated financial objectives did we indicate the desire to be the richest people in the cemetery.*" We were like-minded that we needed to develop an *intentional strategy* to maximize the impact of their accumulated wealth while they were both living. Typically, the result of the outcome is the intentional de-accumulation of estate wealth, with a resulting shift and impact to family and charity during life. In this context, every family will have a different definition of impact, based upon what is important to them.

In my entire career, I have only encountered one situation where the client's stated intent was to leave more to the IRS than was required of him—during life or at death. Unfortunately, that outcome is all too often the reality for families who do not come to grips with the realities and responsibilities of managing significant wealth. Over the years, in planning engagements with estates of all sizes where these types of projections are utilized, more than 80% of the projections we have completed result in a "Hockey Stick" estate growth outcome similar to the one shown above.

As mentioned earlier, in terms of the mere accumulation of wealth for the sake of growing one's fortunes, a family is well advised to be certain that wealth is growing in the right field. This statement is in respect of how much will be given up (in the form of estate taxes) at the time of harvest (at your death). Minimize the amount that is in the estate (sharecropper's field), and maximize what is transferred and growing in the other two fields (owner-operator and sovereign wealth) where much better yields from your "crops" can be realized because one of the two tax bites (estate taxes) is eliminated.

In a moment, you will see a graphical representation of the before and after results for a much larger case example. Regardless of the size of the estate now and in the future, the most beneficial characteristic about this particular software is that it can illustrate, on a year-by-year basis, all three wealth fields mentioned earlier, reflecting quite nicely the financial outcomes for each field:

1. **Sharecropper Field—**Within the taxable estate, where the net yield from your crops are reduced by income taxes during life and estate taxes at death.
2. **Owner-Operator Field**—Outside of the taxable estate, in the form of trusts and entities for the benefit of family members, where only income taxes reduce the yield on your crops.
3. **Sovereign Wealth Field**—Outside of the estate, for the benefit of charity.

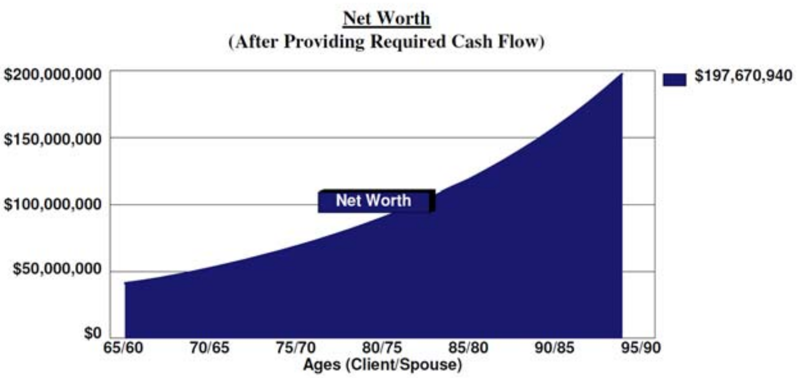
It is important to realize that sovereign wealth field is not, from a Christian perspective, a place to store up worldly financial wealth; rather, it becomes a conduit for Kingdom impact. The best example I can give you of this is the National Christian Foundation (NCF), based in Atlanta, Georgia, with dozens of offices around the country. NCF has helped families of faith strategically steward their charitable outflows as a conduit charity, having received billions of dollars in gifts and bequests, with almost $6 billion in grants flowing out to Kingdom and Christ-focused ministries since NCF's beginning in the '80s. As mentioned later in this book, in 2015 approximately a billion dollars will flow out from NCF to specific and intentional Kingdom endpoints at the direction of the families who placed funds with NCF. Many resources to help in your journey of generosity exist on the NCF website at: www.nationalchristian.com.

In these instances, where there is an excess accumulation in the taxable estate, one can prove up the ability for financial assets to support greater annual expenditures, whether that is for increased lifestyle in retirement, increased current gifting to family members, or increased gifts to charity during your lifetime. The latter two specifically yield greater efficiency and more impactful outcomes due to the reduction of income tax and embedded estate taxes during lifetime.

Permission Slips

As indicated above, this approach lends itself to creating a "permission slip" to approach, view, and deal with wealth in some creative ways. Most of the projections like this are run with the intent of helping clients gain some assurance that they are going to be OK in achieving a successful retirement—that they have little risk of running out of money before they run out of time. Once that has been proven beyond any reasonable doubt, then it becomes much easier to have discussions about stewardship of wealth in the context of accelerated giving during their lifetime. This is true whether the increase in lifetime gifts is to family or to charity, where appropriate maximum impact and wealth restoration strategies are in place. Becoming more intentional regarding achieving desired wealth outcomes during and after your life—both in terms of amounts and destinations—is part of being a better steward and doing good better.

Consider, for the moment, a situation that is ten-fold what is described in the "Hockey Stick" example above—a couple with a $40 million dollar estate and excess capital available for giving $310,000 per year to family or $480,000 per year to charity or a combination of both. $120,000 of this "capacity" was already being utilized to fund life insurance to pay the majority of a voluntary estate tax bill which is presently an embedded debt against the estate. It bears mention that in this case, the couple had done nothing to remove the growth assets from their estate, and other than the gifts to cover the life insurance premiums, they were not maximizing their annual gift exemptions. As a result, their estate (the sharecropper's field) thirty years hence, several years past life expectancy, was projected to grow to almost $200 million over their life expectancy, resulting in over $70 million of taxes due. Here is a picture of their "Hockey Stick" outcome.



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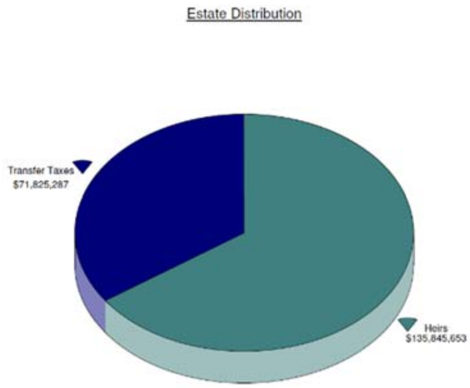
The above projection reflects 8% growth of financial assets, 7% growth of business assets, and a 3% rate of inflation. Regardless of the age or the estate size, the proportion of estate tax in a status quo outcome is approximately the same (the heirs' amount below includes the existing life insurance death benefit paid outside of the taxable estate):



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> ***Beyond this traditional approach to wealth transfer planning, if the Integrated Generosity™ approach is utilized, a significantly improved outcome takes place, one where estate taxes are completely eliminated.***

In this example, $10 million of life insurance was already in place within an irrevocable life insurance trust (ILIT) so that proceeds are outside of the estate, positioned to provide the needed liquidity to the estate so that there are sufficient funds available to pay estate taxes if death occurred in the near future. Doing so would allow the family business, the proverbial golden goose asset, to be preserved and passed on. But this would not be the outcome if the status quo did not change. In light of this, the couple views the cost of coverage as an acceptable expense intrusion to deal with a necessary evil—estate taxes—to preserve the business.

Their emerging realization (they are good students) is that they are planning to pay an embedded debt to the IRS on an advance installment basis. In this case, the annual gifts to an ILIT of approximately $120,000 per year were used to pay the insurance premium. This is substantial debt service from any perspective. What makes this all-too-often-encountered scenario worse is that the outcome is a planning structure with specific intent to pay a voluntary tax, one that can otherwise be easily eliminated.

How would you view the gifts needed to pay the premium (regardless of whether term or permanent insurance is being used) so that your family could pay the tax? Certainly it benefits them, correct? There is little doubt that it does, but every time the gift to the trust is made, and the premium to the insurance company from the ILIT is paid, you should make a mental entry in the memo field of that check that reads “advance IRS installment payment”. When you do, the reality and the lack of efficiency in taking this approach becomes much, much clearer.

Realizing this, the first challenge is arranging their financial affairs in such a manner that *all* future growth of their estate—their business and investment assets—takes place in the owner-operator field (outside of the estate, in trust for future generations), and that they wisely use and apply their annual and lifetime exemptions immediately. In doing so, reductions in fair market value are applied (presuming they get this done before the Treasury Department changes the rules), so that the estate is immediately reduced in size by almost $10 million, resulting in immediate estate tax reduction of over $4 million.

Specifically, using the first two strategies which are detailed in Appendix D, they have sold and transferred growth assets into two trusts (one for business assets, the other for investment assets) in exchange for notes which they now hold as part of their taxable estates (the sharecropper’s field). In doing so, their estate growth is minimized, while the growth in value is taking place fully within the two trusts (the owner-operator field). If this critically important step—removing growth assets from the estate—is ignored, it causes all other measures to be much less impactful, causing wealth to grow within the taxable estate, with a resulting unrestrained estate tax growing unfettered over the lifetime of the couple. Additionally, once this couple realized that their IRA balances totaling $3 million were facing the reality of double taxation, they moved immediately to name their family donor advised fund as the contingent beneficiary on their IRA accounts.

Finally, as a result of the wealth transfer structure, they were able to increase their annual gifting to trusts for the benefit of heirs by an additional $160,000 annually, to their current annual maximum of $280,000 per year ($14,000 X 2 X 10 beneficiaries). These gifts to the trust serve the purpose of reducing the balance on the first of two notes owed back to the client’s revocable trust. In effect, the cash for the gifts moved in a circle while reducing the estate tax liability by 40% of increased annual gifts. These gifts will increase as the indexed gift amounts go up in the future, so that gifts to the trust will be maximized each year.

As a result of these three measures, the projected growth of the taxable estate is now contained to slightly more than $40 million thirty years hence. This estate "freeze" as a result of the sale transactions and the notes is an ideal start, as slight growth in the size of the estate, combined with the indexed increase in the lifetime exemptions, contains the transfer taxes due at death to approximately the same level it was at the beginning, slightly more than $10 million. Compared to the status quo (which saw their taxable estate increase by almost $160 million and a resulting total tax bill of over $70 million thirty years hence), this is a reduction of $60 million in terms of future estate tax exposure.

With the first stage of planning, not only was the majority of future asset growth removed from the taxable estate, the existing life insurance is now equal to or greater than the current and projected estate tax liability—it is 100% covered. While not optimal (remember—estate tax is voluntary), it is a dramatic improvement over the status quo of doing nothing. Beyond this traditional approach to wealth transfer planning, if the Integrated Generosity™ approach is utilized, a significantly improved outcome takes place, one where estate taxes are completely eliminated. This approach begins with the family having a heart for charitable causes and ministries that are aligned with their faith. If the estate growth problem has been addressed as indicated above, the taxable estate has been reduced to less than $40 million thirty years hence, while the current estate tax has been reduced to under $8 million.

Now comes the fun part that results from a prudent application of Precept No. 7—gifting illiquid assets versus checkbook philanthropy. This couple would be paying income tax in excess of $400,000 per year, and they can now approach the during life segment of their planning with strategies where they can increase gifts to charity from cash flow, investments, illiquid assets, or the best combination of all three. Specifically, they will begin gifting the second of the above notes (owed by the trust holding the investment assets) at a rate that generates a $500,000 deduction each year for the next twenty years, in addition their prior level of charitable gifts from cash. As a result, their income tax burden is now reduced by almost $200,000 per year. Since the gifts to charity are from illiquid assets as opposed to current cash flow, the tax savings of $200,000 actually increases net cash flow by the same amount. If these gifts were made from liquid assets, this would result in a net decrease in annual cash flow.

If the gifts to charity are from liquid investments or illiquid assets, as opposed to current cash flow, the tax savings reduces cash outflows to the IRS by $200,000 per year, whereas gifts to charity out of current cash flow do not. Over twenty years, the total in this example is $4 million of income taxes (involuntary philanthropy) which was eliminated and redirected to a higher purpose.

The family, having increased their giving to charity (voluntary stewardship) by donating illiquid assets, is removing assets from their taxable estate during their lifetime, reducing their future estate tax liability by forty cents on every dollar every time a gift is made. In addition, the current tax liability is reduced by 39.6% of every dollar gifted. In total the IRS is subsidizing charitable gifts during lifetime by almost 80 cents for every dollar gifted to charity. If we take this example into a state like New York or California, the total tax subsidy of lifetime gifts to charity pushes north of 92%.

In addition to the lifetime gifts to charity (which should always be managed in a fashion so as to minimize income taxes paid on all income, thus maximizing resulting cash flow increases during lifetime), the couple realized the need to make changes to their testamentary planning. The purpose of these changes are so that any remaining estate value is significantly reduced at death as compared to the status quo outcome. Any amount in excess of the lifetime exemption amount is donated to charity outright or if significant enough, passes into a “boomerang” charitable lead trust. If desired, any or all testamentary charitable bequests can be funded by disclaimer, meaning that the heirs can determine what is the best outcome following the death of the surviving parent. Keep in mind that the charitable endpoints during life and at death can be a family-directed donor advised fund or, if large enough to warrant, a private family foundation.

Of additional (and not insignificant) note, the $3 million IRA balance is converted to a Roth IRA prior to age 70½, (the income realized being offset by concurrent gifts to charity), allowing this asset to grow income tax free. This long-range objective of doing this is allowing the Roth IRA to be the sole asset in the estate that does not pass to charity, unless the balance exceeds the remaining lifetime exemption at death. Providing there are no changes to current estate and

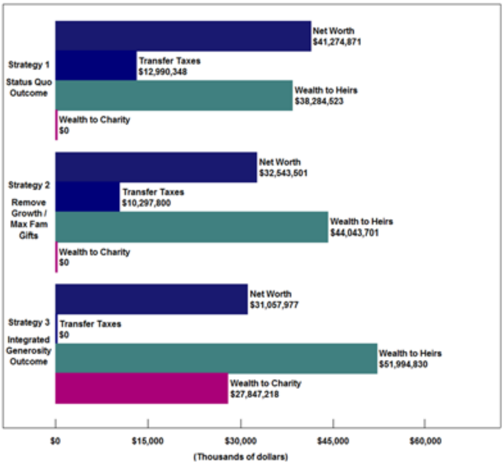
Generation Skipping Transfer Tax (GSTT) exclusions, including annual indexed increases, this tax-free account can pass to grandchildren with tax-free distributions over their life expectancies.

The couple now takes the $200,000 of income taxes saved (resulting from the gift of the note to charity), adds it to the $120,000 of premiums already being paid. This level of gifting to charity, tax savings, and use of the tax savings to acquire life insurance continues for ten years, using a premium finance strategy that yields a total initial net death benefit of slightly less than $40 million dollars. Beginning in the eleventh year, what was previously going toward the insurance strategy now serves to increase annual gifts to family, accelerating the principal reduction of the first note balance.

At death, the benefit that is paid to the ILIT is both income tax and estate tax free. The liquidity created in the ILIT serves the purpose of restoring to family the amounts gifted to charity during life that gave rise to the tax savings in the first place, as well as restoration of wealth directed to charity from the estate. This final testamentary bequest serves the sole and important purpose of eliminating estate taxes. The funds in the ILIT may be used to purchase assets from the estate, so that what goes to charitable endpoints (outright or in trust) as a testamentary bequest is 100% liquid.

This is especially appropriate if a charitable lead trust is utilized and funded at death in addition to any charitable gift measures implemented during life. The assets purchased from the estate are now held in the ILIT, with members of the second or third generation managing the trust, either as trustees or as members of an investment committee (this would be the case where a corporate trustee is used in a jurisdiction where there is no rule against perpetuities). Let’s compare the outcome of what would happen under the three scenarios if this couple passed away immediately, compared to the outcome thirty years hence:

PRESENT OUTCOME—AGE 65:



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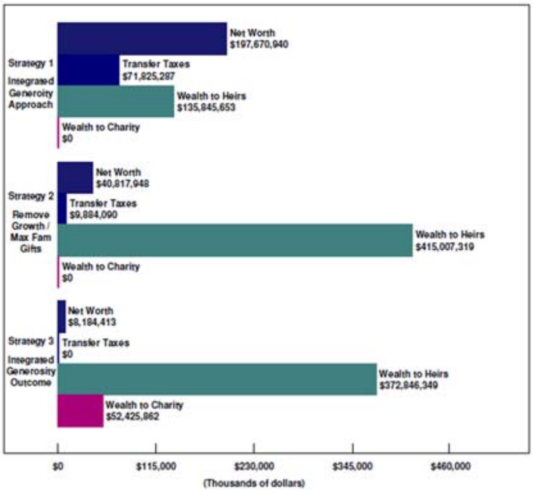
While Strategy 2 provided an immediate reduction in estate taxes of $3 million dollars with no increase in wealth to charity, no increase in wealth to charity, the Integrated Generosity™ outcome resulted in zero estate tax and over $27 million to charity. If we project out the impact of their planning choices to age ninety-four, the impact becomes quite a bit more impressive (or depressing if the family opted to remain status quo in their planning):

PROJECTED OUTCOME—AGE 94:



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It bears repeating that the Integrated Generosity™ approach created an immediate reduction of the couple's estate tax exposure by over $3 million, and the further implementations did not cost the family a single dollar more in terms of current cash flow. This was the result of the prudent utilization of current income tax savings that were created by lifetime gifts to charity. The redirection of cash flow from income taxes saved can now be prudently applied toward wealth restoration to achieve the outcome reflected above. Had the family not moved off of their present status quo path, the future estate tax liability would have seen continued unfettered growth. This would have been commensurate with growth in the value of the estate. Instead it was completely eliminated without incurring significant ongoing costs to achieve this rather significant objective.

The approach described above for this couple was magnified further through the application of Precept No. 10, the use of life insurance, combined with Precept No. 11—the *prudent use* of premium financing strategies. The result of this allowed them to tap into the larger financial capacity that existed in the estate. This provided them with an additional and significant permission slip for greater gifting to family for wealth transfer during life as well as larger gifts to ministry for increased charitable impact and further increase in tax savings. The result in this case is life insurance in an amount approximately equal to their present estate value. Even though they could qualify for much more, the amount and strategy chosen was a prudent use of these strategies, with a result which was a match for their overall objectives, balancing out against increased gifts to family and charity during life. These concepts are further described in Appendix F— Capabilities, Capacities, and Opportunities for Life Insurance Uses.

Will the "hockey stick" of your financial outcome be in your taxable estate, or will it be protected with prudent positioning in appropriate legacy/dynasty trusts and charitable strategies?

Maximum Impact for Smaller Estates—A Modest Permission Slip Example

Not only can this permission-slip perspective can be applied with families whose estates are well into eight and nine figures (where estate taxes are the most significant current point of pain in terms of present planning outcomes), it also comes into play in smaller situations where the size of the estate is well below the lifetime exemption amount of $5.43 million per individual and $10.86 million per couple (in 2015). The formula is fairly simple, so let's look at a smaller example of maximum impact in an actual case that is in progress and will probably be completed by the time this book is published.

A couple in their late seventies was referred to us by an existing client. Their estate plan, a living trust "package," had been put together by a financial advisor who had sold them a $50,000 annuity. While they corresponded with the attorney via email and by phone, they had never met in person. As a result, their estate plan was barely adequate and certainly not optimal. Relative to an estate slightly over $3 million, this couple did not view themselves as wealthy or affluent, which was reflected in their modest lifestyle expenditures which fell well below their annual income of slightly under $100,000. The couple's taxable income ended up just below $80,000 per year, which is highly efficient from an income tax perspective, as their tax rate barely falls into the 25% income tax bracket. With this in mind, they were interested in achieving the following objectives:

1. Converting the remaining IRA assets to ROTH IRA as tax efficiently as possible, in order to eliminate their Required Minimum Distributions (RMDs).
2. Seeing that their ROTH IRA was continued for as long as possible after their passing.
3. Giving more to the Christian ministries they care about while they are alive.
4. Maintaining a certain level of inheritance to their two sons, equivalent to their current estate.
5. Seeing that the assets they owned and left behind were protected from creditors, predators, and taxes.
6. Simplifying their tax reporting, increase their returns, and reduce investment risk on the $1 million of assets that exist outside of their IRA and ROTH IRA accounts.

Here is a picture of the couple's projected cash flow, which are more than adequately supported from current income sources (the income dip at age eighty-five is the point where they expect to cut back on their 20K per year travel budget):

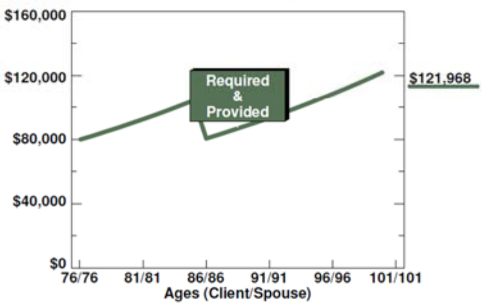
Analysis of After Tax Cash Flow Requirements

Below is a list of your liquid assets. It is suggested that you withdraw funds to meet your after tax cash flow requirements from each liquid asset in the order presented. The Cash Flow graph (below, right) illustrates whether your liquid assets are sufficient to provide the required cash flow.

Withdrawal Order

1st. Managed Equities
2nd. Managed Equities
3rd. Retirement Plan Assets*
4th. Spouse's Retirement Plan Assets*
5th. Roth Assets
6th. Spouse's Roth Assets

Annual Cash Flow



As you can see in the Cash Flow graph above, your liquid assets are sufficient to provide withdrawals to meet your required after tax cash flow in all years illustrated. The graph below shows your remaining total Net Worth.

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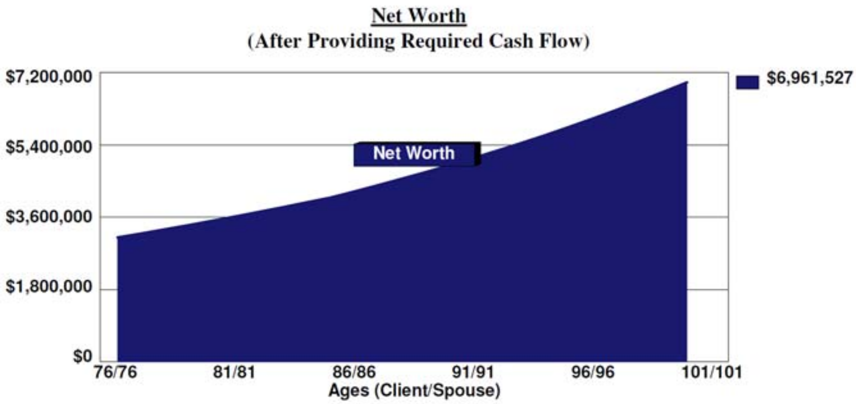
Retirement plan assets indicated above are reflected as a liquid asset as they are a source of cash flow in retirement, as opposed to a residence, personal property, or other illiquid assets. Here is the "Hockey Stick" outcome they were facing. Assuming 6% growth on financial assets and 3% inflation, net worth grows to almost $7 million twenty-four years hence:



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Here is a short summary of what is "on tap" for review, consideration, and implementation:

1. Strategic conversion of their remaining IRA assets over the next seven years to ROTH IRAs, with minimum tax impact resulting from compression and tax offset strategies, including increased gifts to charity during the same timeframe.
2. Creating and naming as beneficiary, an IRA inheritance trust (which their grandchildren are beneficiaries of) as beneficiary of their ROTH IRAs after the passing of the surviving spouse.
3. To offset taxable income generated as a result of the ROTH conversion, the couple plans to make accelerated gifts to a donor advised fund, out of non-IRA assets for the next seven years.
4. On the $1 million of non-IRA investment assets, utilize strategic equities management for a portion that would go to cash at the beginning of another major market decline such as that which has taken place twice in the last fifteen years.
5. From the $1 million of non-IRA assets, fund life insurance policies as follows:
   a. $350,000 on the husband, maximum funded over seven years, and including a chronic illness benefit that converts the death benefit to a benefit pool paid out over fifty months following a qualifying event, as well as a critical illness benefit that pays a substantial portion of the death benefit in the event of a heart attack, stroke, or cancer.
   b. $350,000 on the wife, maximum funded over seven years, and including the same chronic illness benefit and critical illness benefit as her husband.
   c. $1 million of survivorship life coverage, maximum funded over seven years, payable at the death of the surviving spouse.

While no estate tax is due since the estate size is well below the maximum lifetime exemption amount, there is almost $300,000 of embedded taxes against their traditional IRA balances, which will now be dealt with sooner, as a result of a ROTH conversion, using charitable gift deductions to offset income resulting from the conversion. This is a tremendous improvement over the taxes paid as a result of taxable IRA required minimum distributions.

A side note to the chronic illness benefit mentioned above is as follows. As I entered the final editing stage of this book, I had a client review meeting with a couple who had put this type of policy in place three years ago. In the last year, the wife had begun experiencing loss of short-term memory—a cognitive impairment. Meeting the required "trigger" for this benefit, she and her husband will receive $200,000 in tax-free benefits over the next five years. The premium over three years totaled $12,000, but is waived for the rest of her lifetime. Thus, the tax free benefits paid over the next few years represent a multiple of 16X, as a result of the triggering event occurring so soon after the policy was issued. Most importantly, these benefits will be a welcome relief for this couple, preserving the value of their life's work (represented by their net worth) from financial erosion that would otherwise be the result of the care which may be needed.

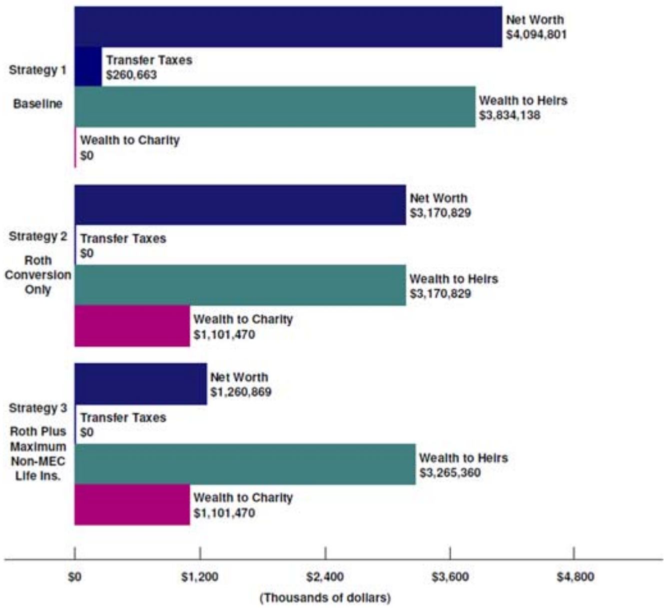
Back to our example. The outcome here is more about maximizing the impact of this couple's estate and financial legacy and has nothing at all to do with any element of estate taxes. This objective is accomplished as a result of utilizing their insurance capacity from a perspective of "how much coverage can we obtain to make a significant impact" versus one of "how much do we need" for payment of estate taxes. In this case, there is no justifiable argument for life insurance from a need standpoint, other than (a) providing a pool of funds in the event either spouse suffers a qualifying chronic illness and (b) restoring to the family an amount equivalent to taxes paid (if any) as a result of ROTH conversions. Rather, this example typifies the use of life insurance for the purpose of achieving larger and more effective family and charitable objectives.

From a charitable perspective, the gifts made to charity to offset the taxable income during the seven years when the Roth conversion took place were augmented by an additional three years of charitable gifts. The illustration presumes the gifts were invested by the charity at a growth rate of 7%, but in reality, but the intent is to be a conduit, not a warehouse. As a result these funds will flow in a more pro-active fashion to the couple's carefully selected charities in significant measures. Compared to the more reactive checkbook philanthropy previously in play, a significant opportunity was created to do good better in the present, allowing God's economy and multiplication to enter into the equation of their charitable directed outflows. This provides their selected charities an opportunity to achieve a much greater “Kingdom” focused “return on investment” through their stated missions and charitable objectives.

An important observation was made by one of our early reviewers as to the fact that “Strategy 2” and “Strategy 3” do not appear to be much different in their outcomes, that there is no improvement by implementing “Strategy 3”. The primary element of difference in “Strategy 3” is the existence of the life insurance mentioned above, and more importantly a chronic illness benefit which will likely be exercised by one of the two spouses, based on the statistical realities of the incidence of long term care events involving in-home care or in-facility care. Whether it is due to death at a point earlier than life expectancy or due to the “trigger” of a chronic illness benefit, in either event the actual amount that flows to family under “Strategy 3” is much more significant in these earlier years, which are not reflected in the comparisons below. “Strategy 2” holds no such buffer for a chronic illness event, allowing these expenses to have a dramatic negative “erosion” effect on the value of this couple’s estate prior to wealth passing to the children. For this couple, a subsequent example which is not reflected below, was prepared illustrating the impact of such an event occurring at age 83 for the husband. In that example, the benefits of the planning reflected in “Strategy 3” is dramatic and quite compelling.

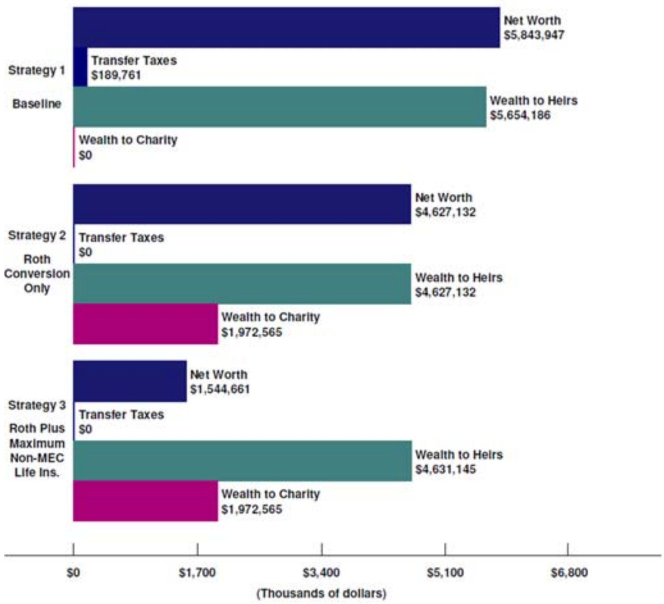
The other important benefit of the existence of the life insurance in “Strategy 3” is the restoration of the taxes which were accelerated into “Strategy 2” as a result of the conversion of the IRA accounts to Roth IRAs. Since the intended endpoint for the Roth IRAs, which comprises the majority of the estate in “Strategy 2” is now for the benefit of the grandchildren, the insurance also provides additional liquidity passing in trust to their children, to provide a needed balance in line with the parents’ desired outcome.

PROJECTED OUTCOME—AGE 85



The above graphics are from Wealthy and Wise® published by InsMark, Inc., San Ramon CA, 94583

PROJECTED OUTCOME—AGE 95



The above graphics are from Wealthy and Wise® published by InsMark, Inc., San Ramon CA, 94583

Aside from providing peace of mind that the individual life insurance death benefits would be accelerated in the event of significant changes in health (driving up the IRR), the couple was pleased that the total insurance structure would restore to their family assets gifted to charities that they cared about during their lifetime. Absent the use of the Integrated Generosity™ approach, the realization of these objectives would not have been possible.

Ownership of policies may be outright or in an ILIT. In larger estate situations, the use of an ILIT is critically important. In Texas, cash values of (as well as death benefits payable from) life insurance, are protected from creditors, making the additional creditor protection provided by an ILIT less important. Due to the size of this particular estate and the couple's desire to keep matters simple, the need to have policies owned outside of the estate is not a critical factor, unless current estate tax exemptions and tax rates are legislatively changed in the future. The current revocable living trust (or future amended trust) will be the designated beneficiary of the policy proceeds, providing maximum flexibility for this couple while they are alive, should they need to access to policy values for any reason.

Are you making intentional plans to achieve maximum-impact "permission slip" outcomes for your family, or are you willing to settle for the status quo outcome?

MARK A. TREWITT Managing Partner, Integrated Financial Solutions Group

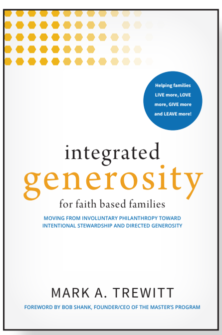
The Intersection of Family, Faith and Finance

Mark Trewitt, Managing Partner for Plano, TX based Integrated Financial Solutions Group, has added one more item to his impressive list of professional credentials – "author". The recently completed manuscript ***Integrated Generosity for Faith Based Families – Moving from Involuntary Philanthropy toward Intentional Stewardship and Directed Generosity*** is the culmination of the experience gathered over a 34 year career in financial services. If yours is a family of Christian faith (a broader perspective "secular" edition of the book is due out toward the latter part of 2016) you owe it to yourself and your family to get a copy of this impactful manuscript. Even if you never meet Mark in person, you can benefit from the wisdom he brings to the table.

"The principles or 'precepts' found within ***Integrated Generosity*** live at the intersection of family values, personal faith, and finance". Driven by his own family's experience – an estate tax bill of almost a half-million dollars – that was, as Mark puts it, an "involuntary extraction of wealth that was more than the investment gains realized over several decades by my step-Grandmother", Mark has incorporated numerous real-life examples of good and bad outcomes, providing readers with inspiration and motivation to be certain that their family's outcomes do not fall prey to ignorance, apathy and a lack of planning.

A seasoned veteran with over three decades in financial services and founder of a boutique investment and financial services firm, Mark leads the other advisors and the staff Integrated Financial Solutions Group to provide, as the name implies, "integrated financial solutions" to their clientele. Identification of and avoiding unfortunate tax outcomes is what has led to a 360-degree process which identifies problems going forward – specifically estate taxes, one form of "involuntary philanthropy".

The process also identifies missed opportunities, looking back over 3 years of tax returns to see where income taxes – the other form of "involuntary philanthropy" – could have been reduced, with the savings applied to wealth transfer solutions. Whether the focus is investments, retirement planning or estate planning, the process starts with in depth client interviews to identify where "financial pain" exists, and then developing a plan to remedy the root causes of concern, as opposed to just dealing with the symptoms.



Available February 2016 on Amazon and Kindle

INTEGRATED GENEROSITY

Moving from Involuntary Philanthropy toward Intentional Stewardship and Directed Generosity

As Mark puts it "Estate taxes are a perfect example. Many families of wealth with estate tax exposure have measures in place – such as life insurance – to deal with the payment of tax. It never ceases to amaze me the number of 50M to 100M+ estates we come across where they have not dealt with the root cause – growth assets within the estate. Nor have they come to the realization that estate taxes are 100% voluntary. Any solution directed toward 'paying the tax', without exploring methods to eliminate the tax, is nothing more than an installment payment plan to the IRS".

- Wealth Preservation and Strategy Management, Estate and Charitable Planning
- Numerous Family Office Clients in Texas and around the U.S.

Education & Honors:
- Mark A. Trewitt, CLU®, ChFC®, Chartered Advisor In Philanthropy®, Certified Financial Planner™, Accredited Estate Planner®
- Co-Founder/Managing Director, The Barnabas Group, DFW Chapter
- North Texas Licensee, The Donor Motivation Program

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