The Financial and Estate Planning Council of Metropolitan Detroit, Inc.

August 2012

30600 Northwestern Hwy., Suite 208, Farmington Hills, MI 48334 • (248) 538-7654 • FAX: (248) 538-7656

President's Message

Summer is quickly coming to a close, and I hope you are enjoying the time with family and friends along with the record temperatures. I want to thank Eric Carver and his committee for all the hard work they put into our 6th annual charity golf outing sponsored by Baker Tilley and the Community Foundation of Southeast Michigan. Our charity partner this year was the Michigan Humane Society. Celebrity speaker Lynn Henning, reporter for the Detroit News, did an excellent job giving us his insights into the Michigan and Detroit sports scene. Congratulations to the outing and proximity contest winners. We look forward to making the 7th annual event bigger and better.

We have another great meeting planned for September 18, 2012. The program committee has been successful in finding another interesting venue for the meeting at the Detroit Yacht Club. Anne S. Dougherty, a managing director with the J.P. Morgan Trust Company of Delaware, and Anita M. Sarafa, Managing Director with the J.P. Morgan Private Bank, will be presenting their ideas on planning techniques using the Delaware Trust. In addition, there will be a two hour CE (State of Michigan and CFP) presentation from 3:30 – 5:30pm. This event is being sponsored by The Baker Group, J.P. Morgan and Miller Canfield. I look forward to seeing everyone there.

I want to bring your attention to another opportunity…the National Association of Estate Planning Councils national convention November 7-9 in Orlando Florida. If you want to get up to speed on the latest and greatest in estate and business planning, this is the place to be. This meeting brings in all the top experts from all the disciplines represented by the estate planning council. In addition, there are 15 continuing education credits available for insurance, CFP and CPA attendees.

Lastly, I want to alert you to a change the FEPCMD is making in sponsorships for the coming year. Instead of asking for sponsors for each meeting, we are asking firms to sponsor the association meetings for the entire year. Your sponsorship dollar will now last the entire year instead of one meeting. We would not be able to put on quality meetings at quality venues if we did not have sponsors. We have a committee calling to ask you for a $1,500 annual sponsorship, so please consider this opportunity. Also you can access information by contacting the council office or the web site.

Thank you, and I will see you on September 18 at the Detroit Yacht Club.

Brad M Kreiner, CFP® AEP®

WELCOME TO OUR NEW MEMBERS

Kelly M. Burnell
Bodman PLC
Sponsors: David Larsen and Bernie Kent

Mark E. Neithercut
Neithercut Philanthropy Advisors LLC
Sponsors: James Knaus and J. Thomas MacFarlane

Mary Nichols
PNC Wealth Management
Sponsors: Alan Rudzewicz and Stephen Moore

Year-End Planning Ideas for the High Net Worth

Walter H. Van Buren and Kent Rife

Though it seems the year 2012 just started, the year 2013 will be here before we know it. The end of this year means an end to what should have been a two year boon to the Estate Planning arena for all disciplines involved in our Council and their clients. But when 2012 comes to an end, we should anticipate change. So, here we go again…

If Congress doesn't take action before December 31 of this year, exemptions will revert to $1,000,000 from $5,120,000 (or $10,240,000 for married couples) and the top estate, gift and generation-skipping tax rate will go back to 55% from the current 35%. Of course, none of this is news to any of us. Being Estate Planning practitioners, we are consistently reminded of this message on a daily basis.

So, with Congress needing to enact a new law by this deadline, and in an election year, you may be asking yourself; "What exactly is there to look forward to?"

Opportunity…

…but don't let this opportunity slip away…you have only a few months left!

The following case studies are cases we have worked on since 2011. They are not rocket science. Many of you may have already done them. But with the aforementioned year-end approaching, we felt it important that attorneys, accountants and advisors have an extra arrow in their quiver as you talk with your clients. Maybe you will find one or more new arrows with the case studies we are sharing with you.

The Gift Strategy

Last year, we were approached to discuss planning strategies for a client who has a substantive net worth and had purchased Trust owned life insurance. Under the old law and new law, they had used some of their gift exemption; however, they still had $7,000,000 of gifting exemption remaining.

After several meetings, the client decided to use $3,000,000 of that gifting capacity to purchase life insurance. He would use the remaining $4,000,000 to gift for other "more fun" purposes.

The client liked the insurance idea, which left him the ability to leave more for his family and even more for his charities. Together, we decided that Survivorship Life Insurance would be the best route. The husband and wife were 68 years old. Both were fortunate enough to be in excellent health and received preferred underwriting ratings.

Several funding scenarios for the life insurance were illustrated. His intent was to use 4% of the earnings on the funds in the Trust to pay for the premiums. This generated $120,000 of annual premiums and resulted in $9,758,000 of death benefit.

Also illustrated was a funding scenario in which the Trust paid larger premiums for a shorter period of time by using the earnings but also the entire principal over 10 years. The premiums were $340,000 and resulted in $16,844,000 of death benefit. At this point the client began to understand the concept of shorter funding premiums. Once he had a grasp on this, the conversation of life expectancy and Internal Rates of Return evolved. Their joint life expectancy was 23 years.

We returned to the scenario of funding the life insurance with $120,000 of annual premium. We figured he would have to earn 8% net after tax in order for the Trust fund accumulation and the life insurance to equal the same death benefit at life expectancy as one of the shorter premium paying options.

This conclusion resulted in the final decision. Ultimately, after deciding he had plenty of other funds and gifts, prior and current, to go around he determined there was no real need for the funds to sit in the Trust. He decided on a Lump Sum Single Pay Policy. Using the $3,000,000 on this basis resulted in $19,556,000 of death benefit.

$3,000,000 Gift Made to ILIT			
Year	Insurance Premiums	Death Benefit*	IRR's**
1	$3,000,000	$19,556,000	551.87%
5	$0	$19,556,000	45.49%
10	$0	$19,556,000	20.62%
15	$0	$19,556,000	13.31%
20	$0	$19,556,000	9.83%
23***	$0	$19,556,000	8.49%
A100	$0	$19,556,000	6.03%

*The contract becomes a Modified Endowment Contract (MEC) in Year 1.
** IRR's are net after tax equivalent return on the death benefit.
***Year 23 is the couple's Life Expectancy of Age 91.

The end result of this transaction is the client took advantage of the current lifetime exemption. The total gift removed $7,000,000 from the client's estate, while providing a large net after estate and income tax free death benefit to the heirs.

The Loan Strategy

While this is not necessarily a concept that is under the constraints of the end of 2012, it is one we have used with several clients who have wished to take advantage of the low interest rates available in the marketplace.

In this case, the client had no need or desire to own life insurance. In fact, he despised life insurance. However, his tax advisor had been leaning on him heavily to purchase some Trust Owned Life Insurance (TOLI) to cover future estate tax obligations.

When we initially spoke to the tax advisor about the concept, he told us, verbatim, what his response would be. He did not want to pay premiums. He did not want to lose the use of funds. However, the client was 53 years old. He was still working and was not selling his business or retiring anytime soon. He still had plenty of assets to go around.

We explained that the client could lend money into a Grantor Trust. We would use the Mid Term Applicable Federal Rate, at the time 1.12%, on a nine year note. The note also allowed the client to retain indirect control of the

THE FINANCIAL AND ESTATE PLANNING COUNCIL OF METROPOLITAN DETROIT

presents

Anne S. Dougherty & Anita M. Sarafa
J.P. Morgan Private Bank

TUESDAY, SEPTEMBER 18, 2012

THE DETROIT YACHT CLUB
1 Riverbank Road
Detroit, Michigan 48207 MAP

Sponsored By

TheBakerGroup Financial Services J.P.Morgan MILLER CANFIELD

CE credit for afternoon session: State of Michigan Life (No. 60239) and CFP (No. 91812) / Two (2) Hours

AFTERNOON PROGRAM:

Registration: 3:00 p.m.
Presentation: 3:30 p.m. – 5:30 p.m.
Break: 4:30 p.m. – 4:45 p.m. (cookies and beverages)

"Directed Trusts, Decanting and Asset Protection: A Potpourri of Planning Opportunities in Delaware"

COST: $75.00

EVENING PROGRAM:

Complimentary Cocktails: 5:30 p.m. – 6:30 p.m.
Presentation: 6:30 p.m. – 7:30 p.m.
Dinner: 7:30 p.m.

"Achieving the Promise of Multi-Participant Trusts"

COST: $60.00

FULL DAY DISCOUNT: $110.00

Anne S. Dougherty, a Managing Director with the J.P. Morgan Trust Company of Delaware, is responsible for managing numerous complex family trust relationships and the international trust business in Delaware. Ms. Dougherty is also the Fiduciary Executive for the Delaware Trust Company and as such provides fiduciary expertise and ongoing training for the Trust Company personnel. Prior to joining the bank, Ms. Dougherty practiced law in New York with the firm of Sidley Austin Brown & Wood LLP. Her practice focused on trusts and estates, both domestic and international.

Anita M. Sarafa, a Managing Director with the J.P. Morgan Private Bank, advises clients across the Midwest region on their comprehensive estate planning needs and goals. Anita currently serves as President of the Chicago Estate Planning Council. She speaks and writes nationally on topics related to multi-state estate planning and charitable giving and tax planning and has been featured in The New York Times.

AFTERNOON PRESENTATION: Anne Dougherty and Anita Sarafa will discuss current developments in Delaware law, the use of investment advisors and other discretionary advisors through directed trusts in Delaware, a comparison of Delaware and Michigan directed trusts, creating Delaware nexus, the benefits of Delaware asset protection trusts, using Delaware to "decant" trust assets to one or more new trusts designed to meet changing needs and circumstances, and much more!

EVENING PRESENTATION: Anita Sarafa will discuss the trend toward multi-participant trusts. She will identify the various trust participants in modern trusts from administrative trustees and trust advisors to protectors. She will also identify the "coordination gap" among multiple trust participants, problems with multiple trust participants, effects of state law on the functioning of multi-participant trusts and provide guidance in creating a well functioning multi-participant trust.

Log onto our website by September 11 to make your reservation and pay with VISA or Master Card.
www.metrodetroitfepc.org

OR PLEASE MAIL YOUR RESERVATION AND CHECK BY SEPTEMBER 11 TO:
FEPCMD ● 30600 Northwestern Hwy-#208 ● Farmington Hills, MI 48334
Phone: (248) 538-7654 ● Fax: (248) 538-7656

Member Name:____________________ **Phone Number:**____________________

Guest Name:____________________ **Phone Number:** ____________________

Full Day__________ **Afternoon Program Only**__________ **Evening Program Only**__________

Amount Enclosed:______________________________

Financial and Estate Planning Council of Metro Detroit, Inc.

The FEPCMD is a Michigan non-profit corporation. Its mission is to:

1. Promote cooperative efforts in the fields of estate and business planning among the professionals and business enterprises represented by the members, always keeping in mind the interests of their clients,
2. Engage in study, discussions, meetings and additional activities which will continuously improve their combined services,
3. Promote respect and understanding of the members, and
4. Promote understanding of financial and estate planning matters among the public.

Sponsorship Opportunities:

Quarterly events are conducted to educate its members on topics relating to current estate and business planning issues. Corporate sponsorship opportunities are available and are structured to provide recognition and exposure for participating companies. Choose from the following packages:

LEVEL 1 SPONSOR

Sponsorship Includes:

- Recognition and Logo inclusion *on all event notices and signage* at every event
- Inclusion in FEPCMD Newsletter
- (2) Complimentary Entrance Tickets to One Event of Sponsor's Choice

Cost: $1,500

LEVEL 2 SPONSOR

Sponsorship Includes:

- In addition to all Level 1 benefits, the Level 2 sponsor may select and provide a speaker for one event and receive featured promotion.

Cost: $3,000

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SPONSORSHIP COMMITMENT – Submit to FEPCMD Representative

Sponsorship Choice: ☐ Level 1 Sponsor [$1,500] ☐ Level 2 Sponsor [$3,000]

Company Name: ______________________________ Contact Name: ______________________________

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Payment Options: ☐ Send Invoice ☐ Credit Card Payment Via Website
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cash lent to the Trust. Since the rate was so low, there was a lot of flexibility and the possibility of a significant arbitrage existed.

The loan and annual interest would accrue within the Trust. At the end of the ninth year, the loan and accrued interest would be repaid in full from a Trust side investment fund. Assuming a moderate assumption, the investment fund would generate a 6.00% gross rate of return annually.

To fund the annual premium, 4.00% would be withdrawn from the principal. The additional 2.00% not only provided for the repayment of the interest, but it also allowed some cushion in the event of market fluctuations.

All premiums would be paid and the policy funded by the end of the ninth year. This prevented any further obligations from the Trust once the loan and interest were repaid.

The bottom line, after meeting with the client and overcoming his objections to life insurance, he "loved" the concept. He got the insurance his advisors felt he needed, and in the long run the payment of premiums would essentially have a zero net effect. He also took a special interest in the Internal Rates of Return and began to understand the benefits of life insurance as a separate asset class.

$5,000,000 Loan Made to Grantor Trust				
Year	Trust Side Fund @ 6%	Insurance	Death Benefit	IRR's
1	$5,088,000	$200,000	$9,729,369	4764.48%
5	$5,496,064	$200,000	$9,729,369	88.58%
9	$6,011,236	$200,000	$9,729,369	33.08%
10	$486,975	$0	$9,729,369	28.19%
15	$651,683	$0	$9,729,369	15.83%
20	$872,099	$0	$9,729,369	10.88%
31*	$1,655,504	$0	$9,729,369	6.40%
A100	$4,205,562	$0	$9,729,369	3.99%

*Year 31 is life expectancy, Age 84.

If the Trust side fund were to outperform the 6.00% assumption, there would be even more cash left in the Trust after nine years. The potential exists to purchase additional insurance on a single pay basis.

The IRA Swap

This case was a true asset swap. A husband and wife, ages 79 and 76 respectively, had an IRA of $1,900,000 in a taxable estate. They were taking Required Minimum Distributions, when in reality they neither wanted them nor needed them.

The lone reason for having the IRA was to add to their children's inheritance. What they did not realize was that the IRA was a "ticking time bomb;" that is, once estate and income taxes were netted out, the remaining balance to the heirs would be less than $600,000. Once they clearly understood the tax effect and recognized they did not "need" the asset, they started to ask questions about methods to get the full value to their children.

We suggested they purchase a Single Premium Immediate Annuity (SPIA) with the IRA. Based on a Joint and Full Survivor payout option, the SPIA generated an annual net after tax income of $95,150 which was guaranteed for life.

The $95,150 is gifted annually to an ILIT. The ILIT then purchased a Survivorship Life Insurance contract on the husband and wife, which resulted in a $2,158,998 guaranteed death benefit.

$1.9M SPIA – Life Insurance IRR's			
Age M/F	Net Income From SPIA	Death Benefit	IRR's
79/76	$95,150	$2,158,998	2169.02%
84/81	$95,150	$2,158,998	55.53%
89/86	$95,150	$2,158,998	14.50%
94/91*	$95,150	$2,158,998	5.02%
100/97	$95,150	$2,158,998	0.75%

*The clients' age 94/91 is their joint life expectancy of 15 years.

This transaction resulted in an estate and income tax savings of almost $1,600,000 to their children.

We also explored the possibility of purchasing the SPIA and Life Insurance policy on the husband only. While the net after tax annual income from the SPIA was greater at $125,000 per year, the death benefit would have been only $1,519,170.

The key with all asset swaps is that the asset you are exchanging must never be needed. We have talked with many clients about this strategy and some have just felt that they need the asset.

Asset swaps like this can be done with other assets as well. Any asset that exists in a taxable estate, that there is no need for income from it and is either liquid or could be easily liquidated would be a possibility for an asset swap.

As we said from the start, these types of strategies are not rocket science. But, they are strategies that we all should be keeping at our fingertips as we wind down the remaining months of this two year window.

Walter Van Buren and Kent Rife are Partners in CBIZ, Inc.'s Wealth Transfer and Business Succession Practice in Plymouth Meeting, PA. with over 50 years in the life insurance business they assist high net worth families and successful businesses in the sophisticated uses of life insurance in connection with their wealth transfer, business succession and executive benefits planning.

They offer securities and investment advisory services through CBIZ Financial Solutions, Inc. a Broker/Dealer and Registered Investment Advisor 6050 Oak Tree Blvd., South, Suite 500, Cleveland, OH 44131

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49th Annual NAEPC Conference
November 7-9, 2012
Watch for more info coming soon!

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