Lincoln Financial Group®

You're In Charge®

WealthProtection Expertise℠

Take charge of your legacy

Build a tax-efficient estate plan

LIFE SOLUTIONS

Client Guide

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Create the tax-efficient legacy you want

Regardless of your net worth, it's important to have the right estate plan in place.

Estate planning is an essential part of protecting your wealth. It can help you:

- **Grow and protect your legacy**
- **Reduce expenses, taxes and probate costs**
- **Control the distribution of your assets**
- **Increase confidence that the plan you have in place directs what you intended**

Get started. Reach out to your advisor.

Your advisor can help guide you through a complicated estate planning process involving tax laws, trust management, future healthcare and more. They may partner with an attorney or tax advisor to create an estate plan that works for you.

Whether you want to help protect your family's future, support a charitable cause, or leave assets to another person or organization close to your heart, your advisor can help.

Minimize taxes. Protect your legacy. Pass on more of the wealth you work so hard to achieve. A solid estate plan can help.

Meeting your objectives

Wills

A will gives you the power to designate who inherits your property and how it's distributed upon your death. It tells everyone where you want your assets to go. It helps you:

- Transfer assets outright or *in trust*
- Appoint a *personal representative,* or *executor,* to administer and distribute your estate
- Name a *guardian* to care for any minor children or other dependents who may be physically or mentally incapacitated, and direct the management of their assets

To die without a will, or *intestate,* means your property transfers according to your state's laws. These laws are based on family and blood relationships and may not fulfill your desired wishes.

Without a will, you have no say in where you want your assets to go, and it may be costly to your heirs.

Power of attorney

A *power of attorney* grants you the power to designate and authorize another person, the *attorney-in-fact,* to act on your behalf. The attorney-in-fact has essentially the same legal authority as you and can be granted broad or limited powers over your financial affairs.

There are two types

1 **Durable power of attorney**

Effective immediately and continues unless revoked. It's not affected if you subsequently become mentally incapacitated.

2 **Springing power of attorney***

Goes into effect under situations you specify. The most common circumstance is if you're declared mentally incapacitated.

Advance healthcare directive

An *advance healthcare directive,* or *healthcare power of attorney,* gives another person—such as a spouse or your child—the power to make healthcare decisions on your behalf if you are mentally or physically incapacitated or unable to communicate your wishes.

Trusts

A trust establishes a legal entity that allows you as *grantor* to place specific parameters around the distribution of your assets. A *trustee* is appointed to manage and control property according to your written directions for the benefit of your beneficiaries.

*Also referred to as *conditional power of attorney.*

Two trust categories — revocable and irrevocable

1 Revocable trust

A *revocable trust* can be terminated or modified at any time during the life of the grantor. It becomes irrevocable at the grantor's death or can remain revocable until the death of a surviving spouse who may also be a grantor.

Though effective to avoid probate, the assets in a revocable trust are included in the grantor's estate for federal estate tax purposes. Revocable trusts typically do not provide any protection against the claims of creditors.

2 Irrevocable trust

An *irrevocable trust* cannot be terminated or significantly changed by the grantor. Irrevocable trusts are typically used to remove assets from the grantor's taxable and probate estates. The trust can also provide creditor protection for trust beneficiaries, including protection against claims by spouses of trust beneficiaries in a divorce or property settlement. Irrevocable trusts are typically funded by gifts from the grantor.

Using trusts to meet different objectives

Marital estate planning objectives

A *general power of appointment marital trust,* also referred to as *marital trust* or "A" trust, provides income for the surviving spouse, access to principal, and the power to remove assets or select beneficiaries upon their death.

A *qualified terminable interest property (QTIP) trust* provides support for the surviving spouse during his/her lifetime, but allows the grantor to designate how the trust assets are distributed when the surviving spouse dies.

Family estate planning objectives

A *family trust (credit shelter trust, "B" trust, bypass trust* or *unified credit trust)* is used to take advantage of the lifetime exemption amount and allows assets to pass estate and gift tax-free to beneficiaries. A family trust can be a source of income for a surviving spouse.

A *dynasty trust,* or *generation-skipping trust,* provides income for many generations while avoiding gift and estate taxes. The trust can be funded with gifts or bequests, and life insurance is often used to fund the trust over successive generations.

What life insurance can do

Life insurance can help you create a tax-efficient legacy worth much more than the cost of the premiums you pay. Its death benefit transfers to your beneficiaries, federal and state income- tax-free, and possibly estate tax-free if set up properly in an irrevocable life insurance trust. Life insurance can help:

Pay immediate expenses
It can cover funeral costs and help ease a difficult time. Your beneficiaries will get a prompt death benefit payment. That means they can pay bills without cashing in or selling off other assets, often at a loss.

Relieve tax burdens
Its death benefit can help pay estate taxes, which can be an unexpected and unavoidable debt for your heirs. Estate taxes are due within nine months from the date of your death or the death of your surviving spouse. Be prepared and plan in advance.

Satisfy mortgages and other costs
Life insurance proceeds can help your loved ones make car payments, pay the mortgage, or cover healthcare costs. It can help pay down any outstanding debt.

Equalize estate distributions
Perhaps your daughter wants the family business and your son has other goals. Your life insurance death benefit can help ensure your estate has the liquidity to promote equitable distribution of assets in terms of worth and value.

Continue a business
Life insurance can help ensure your business continues if you die suddenly. Its proceeds can help your family buy out a business partner's interest, stocks and more.

Two types of life insurance

Term life insurance covers you for a limited period of time, or term.

- It's often called the most affordable life insurance.
- It pays a guaranteed death benefit amount for the time period covered.
- The coverage payments, known as the premiums, remain the same for the coverage period.
- You can convert a term policy to permanent insurance with growth potential.

Permanent life insurance provides longer-duration protection.

- You have death benefit coverage up to lifetime.
- It can build cash value on a tax-deferred basis.
- Cash value can be accessed for income needs.
- The death benefit to your beneficiaries is generally not subject to income taxes.

Guarantees are subject to the claims-paying ability of the issuing company. Limitations and conditions apply.

Your life insurance policy in an irrevocable life insurance trust (ILIT)

How it works

The ILIT purchases the policy you selected.

- An individual life insurance policy on your life, or
- A survivorship policy, which covers two lives and pays out a death benefit after the death of the longer surviving spouse.

The ILIT is the owner and beneficiary of the policy. At your death or your surviving spouse's death, the policy proceeds are paid to the ILIT.

How premiums are paid

Life insurance premiums are often entirely funded as gifts to the ILIT. The premiums you gift qualify for the gift tax annual exclusion, which means you pay no gift tax as long as the premium amount you gift is not more than the gift tax annual exclusion for that year.

The amount excluded from gift tax in 2016 is $14,000 (individuals) and $28,000 (married couples) per beneficiary.

If the premiums exceed your gift tax annual exclusion limitations, you may want to consider using all or part of your lifetime applicable exemption amount — $5,450,000 (individuals) and $10,900,000 (married couples) — to pay the premiums without any gift tax liability.

An irrevocable life insurance trust

An *irrevocable life insurance trust* can help you exclude life insurance proceeds from your taxable estate. It's a powerful estate tax-savings tool for those with large death benefit life insurance policies and high net worth.

Reducing estate taxes through gifts

You can remove assets from your taxable estate through gifts. The 2016 gift-tax exclusion annual allows you to give up to $14,000 to family and friends each year ($28,000 for married couples) without triggering the gift tax. That's the same gift-tax annual exclusion you have with an ILIT.

Gift and estate taxes can change, so gifting should be done only with legal and tax counsel.

Be aware. Be proactive. Be diversified. Make tax-efficient life insurance a part of your estate plan.

Talk with your advisor, and start protecting your legacy with the right estate plan today.

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