

# Land As Your Legacy

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# Plant Your Legacy

## **Reasons why you should consider planting your Legacy!**

- Take Advantage of the Great “Wealth Transfer”
- Strengthen Relationships with Heirs & Prevent Surprises
- Ensure Transfer of Wealth as You Intend
- Control your Legacy
- Leave a Legacy & Build a Philanthropic Family Tradition

# Wealth Transfer – the Why of Planned Giving

**Wealth Transfer.** Approximately **\$59 Trillion** will change generational hands over the next fifty years (2007-2061).

Source – Boston College Center on Wealth and Philanthropy

- In Iowa, \$531 billion will transfer between 2000-2049
- In Story County, approximately \$16.7 billion will transfer between 2000-2049
- Through estates, heirs will receive \$36 trillion.
- Federal estate taxes will claim \$5.6 trillion.
- The sum directed from final estates for which there is no surviving spouse) toward charity is estimated at \$6.3 trillion.
- Total gifts to charity during the study period are vastly greater, according to the study, which estimates that lifetime giving will yield an additional \$20.6 trillion for charity from 2007-2061.
- As much as 1/3 of this wealth may find its way into nonprofit institutions, and planned giving will be a major conduit through which this wealth will pass. Ex. Practical Farmers of Iowa.

# Retirement Planning: More Crucial Than Ever

## RETIREMENT PLANNING IS PARTICULARLY IMPORTANT TODAY



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Longer Life  
Expectancy



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Increasing Health  
Care Costs



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Changes in  
Corporate Benefits



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Social Security  
Uncertainty

## What Are Your Goals and Dreams?



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Make a  
Major Purchase



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Retire  
Comfortably



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Plan for a  
Key Event



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Save for Your Children's  
or Grandchildren's  
Education



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Keep the Farm in the  
Family

# How Confident Are You of Achieving Your Dreams?

## ACCORDING TO RECENT STUDIES

- Only 13% of American workers feel “very confident” about achieving their retirement goals <sup>(1)</sup>
- Only 39% of investors have a financial plan <sup>(2)</sup>

## HOWEVER . . .

- Those who do have a financial plan are significantly more likely to be optimistic about their financial future
- Investors with a financial plan feel more confident about reaching their financial goals relative to those without a plan <sup>(2)</sup>

Sources:

1. Employee Benefit Research Institute (EBRI) Retirement Confidence Survey: Summary of Findings, March 2013.
2. CEB Wealth Management Leadership Council: Positioning Planning at the Center of the Wealth Offering, 2013.

## Tax Reform and Your Goals?

### Estate Tax Exclusions – Does this Change the Conversation?

#### GIFT AND ESTATE TAX EXCLUSION AMOUNTS

Year	Exclusion Equivalent	Credit	Top Rate
2016	\$5,450,000	\$2,125,800	40%
2017	\$5,490,000	\$2,141,800	40%
2018	\$11,200,000	\$4,371,600	40%

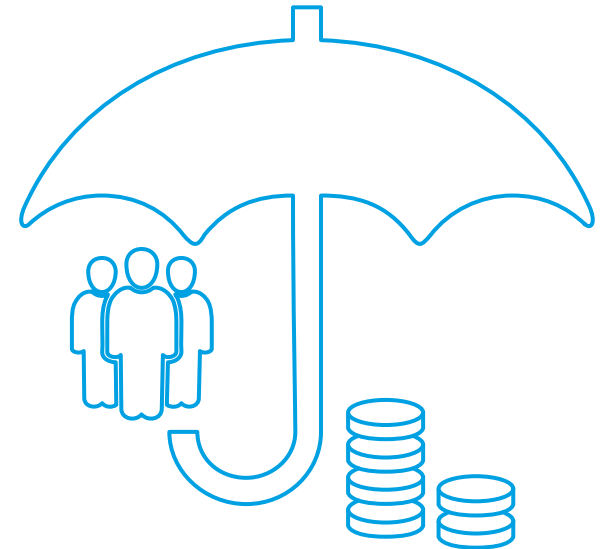
\*\*\*\*Repeals the estate tax and generation skipping tax in six years, as of January 1, 2024.

## What If Things Don't Go as Expected?

### Don't Fail to Plan or Fail to Update an Out of Date Plan

#### WILL?

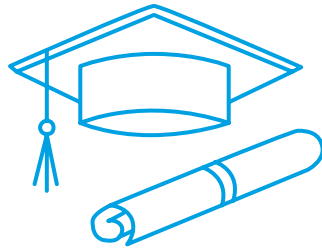
- I have enough to retire comfortably?
- I be affected by inflation?
- My family be provided for?
- My assets be protected if the market underperforms?





## Protecting Your Goals

INSURANCE CAN HELP PROTECT YOUR GOALS IN THE EVENT OF A MAJOR CRISIS, SO THAT



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**Your Children or  
Grandchildren Can Go  
to College**



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**Your Family Can  
Maintain a Comfortable  
Lifestyle**



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**Your Estate Won't  
Have to Be Liquidated  
to Pay Taxes**

**DON'T OVERLOOK LIQUIDITY NEEDS**

## Case Study: Life Insurance Planning

### Parents have several options regarding life insurance:

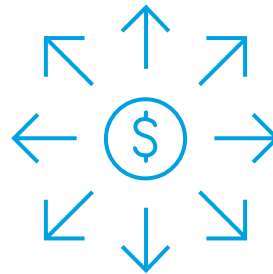


What is fair and balanced as it relates to heirs?

- How do you value sweat equity as it relates to farm heir?
- Parents carry enough life insurance on themselves to provide liquidity at death to pass to non-farm heirs, leaving farm assets to the farming heirs
- Parents gift money to farm heir during their lifetime which would be used to purchase life insurance on the parents with farming heirs as beneficiaries. This would enable the farm heir to exercise the buy-out provision and buy-out non-farm heirs when parents die.
- If there is debt incurred, a life insurance policy can provide money for debt payments and for estate tax obligations
- Liquidity to pay off expenses and potential taxes.

## Preserving Your Assets for Your Heirs

ESTATE PLANNING IS CENTRAL TO SUCCESSFUL WEALTH MANAGEMENT AND CAN



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**Serve to Minimize the Impact  
of Estate Taxes and  
Help Reduce or Eliminate  
Probate Costs**

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**Enable You to Arrange  
for the Distribution of  
Your Assets**

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**Help You Carry  
Out Your  
Philanthropic Wishes**

# More to Heirs & Less to Uncle Sam – Charitable Strategies

- Wills and Bequests
- Life Insurance and Annuities
- Large Capital Gifts
- Restricted and Control Stock
- Closely Held Stock
- Mutual Funds
- Real Estate
- Retained Life Estates
- Tangible Personal Property
- Testamentary IRA's

# Designating a Charity as Beneficiary of Life Insurance

## **Designating a Charity as Beneficiary of Life Insurance**

- Life insurance can make an excellent charitable gift.
- The substantial leverage involved in insurance affords the donor the capability of gifting a significant amount for a relatively small cost.

# Split Interest Gifts - Gifts That Provide Income

## **Charitable Gift Annuity**

- Provides donor with guaranteed distributions for life in exchange for making a direct gift to charity.
- Charitable gift annuities provide cash flow to the donor in return for the donor making a gift directly to the charity that provides or sponsors the charitable gift annuity
- Payout rate depends on age of donor
- State of residence controls whether a charitable gift annuity can be established

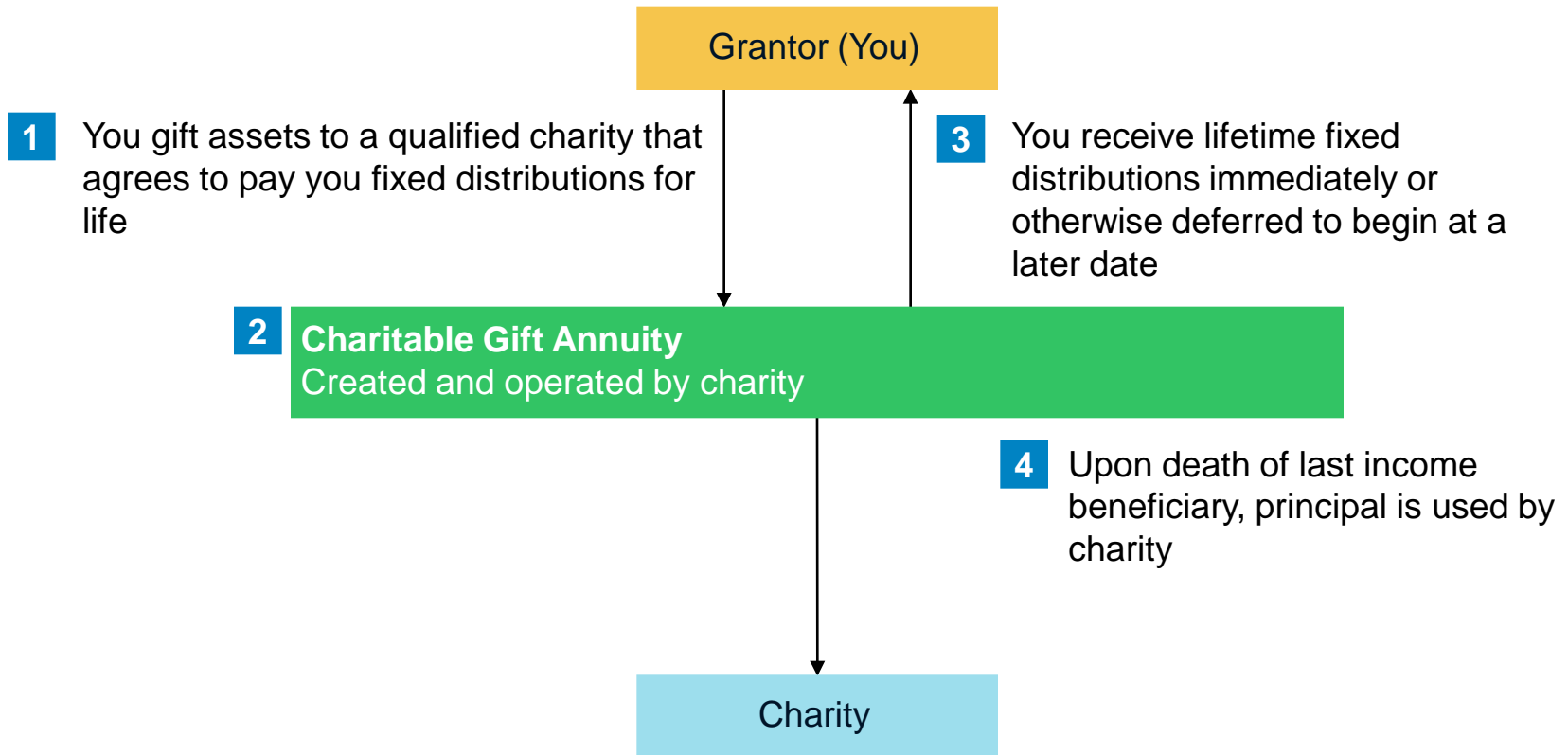
# Gifts That Provide Income (cont'd)

## **Charitable Gift Annuity**

- Advantages
  - Guaranteed distributions for life
  - Distributions are either tax-free return of principal or capital gains income
  - Immediate federal income tax deduction
  - An easy form of charitable giving
  - Typically offers low contribution minimums (\$5,000+)
- Disadvantages
  - Lose control over use of gift by charity
  - Cannot change charitable beneficiary
  - No family involvement

# Gifts That Provide Income (cont'd)

## How a Charitable Gift Annuity Works





# Case Study

## Charitable Gift Annuity

- Type of Asset – Grain
  - Gift of Grain to Fund the CGA
  - Many off-farm heirs or retired farmers use gift annuities to manage rent payments
  - Gifting grain can provide a larger tax benefit than selling the grain and making a gift of the proceeds.
  - Contributing grain may allow you to avoid the sale of the commodity as income while still deducting production costs, thus reducing taxable income and supporting the causes you care about most.

# Gifts That Provide Income (cont'd)

## **Charitable Remainder Trust (CRT)**

- Tax-exempt trust that enables donor to give to charity, diversify assets and receive annual payouts.
- A CRT can be established with the following timeframes:
  - One Life
  - Multiple Lives
  - Term of Years not to exceed 20
  - Certain combinations of lives and a term of years

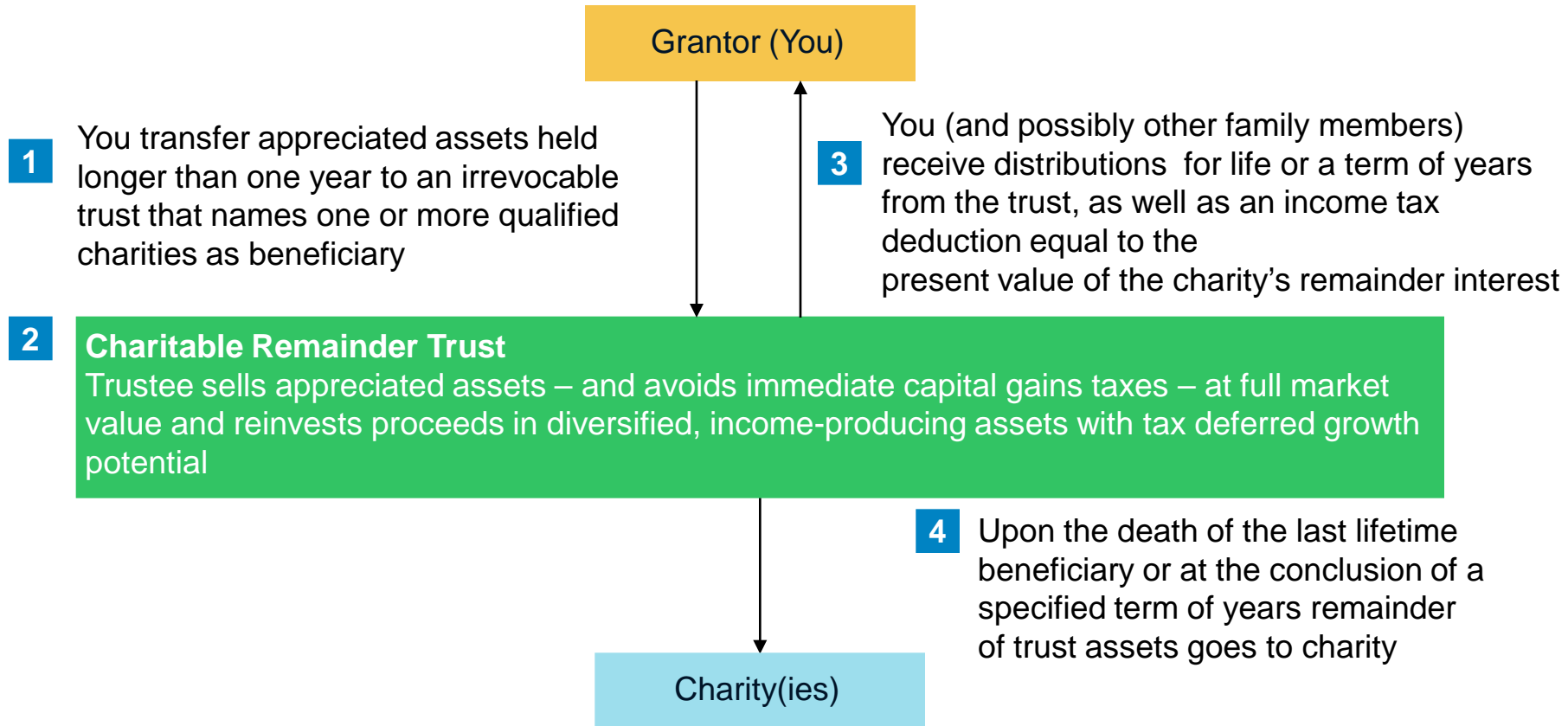
# Gifts That Provide Income (cont'd)

## **Charitable Remainder Trust**

- Advantages
  - Avoid immediate capital gains taxes
  - Increase disposable cash flow and diversify your investment portfolio
  - Receive a current year income-tax deduction
  - Reduce estate tax liability
  - Provides future gift to charity
  - Can change charitable beneficiaries at any time

# Gifts That Provide Income (cont'd)

## How a Charitable Remainder Trust Works



# Gifts That Provide Income (cont'd)

	Charitable Remainder Annuity Trust	Charitable Remainder Unitrust
<b>Distributions</b>	Fixed annual distributions specified in dollars or as a percentage of the initial fair market value of the trust	Annual distributions are equal to a percentage of the trust as it is re-valued each year
<b>Varying Distributions?</b>	No – fixed annual distribution amount	Yes – distributions can vary based on investment performance
<b>Protect Against Inflation?</b>	No	Possibly
<b>Additional Contributions Permitted?</b>	No	Yes

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# Charitable Remainder Trust

## Charitable Remainder Unitrust Example

<b>Beginning Balance</b>	\$1,000,000
<b>Age of Donor</b>	60
<b>Annual Payout Rate</b>	5%
<b>Term of Trust</b>	Life expectancy (84)
<b>Lifetime Distributions from Trust</b>	\$1,135,512
<b>Total Benefit to Charity</b>	\$1,176,004
<b>Income Tax Deduction</b>	\$377,570

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Assumptions: Charitable Remainder Unitrust with a growth rate of 6%, monthly IRS rate of 1.2%.

# Case Study

## Charitable Remainder Trust (CRT)

- Type of Asset – Gifts of Machinery
  - Gift of Machinery to Fund the CRT
  - Machinery and other agricultural production tools are the heavy lifters on farms.
  - Tax benefits of depreciation & accelerated depreciation may have already been used.
  - Recapture depreciation can often create unanticipated tax issues when you no longer need the equipment (retiring or selling farm).
  - Gifting equipment into the trust allows for straight-line depreciation to be paid out through the income stream over a period over years, thus avoiding the initial lump tax payment. There may be a charitable deduction as well. You then receive an income for your life or a term of years.
  - This can be a rewarding strategy for the donors along with providing retirement income for the future.

# Morgan Stanley Wealth Planning Centers

- We are here to help you create and preserve wealth for current and future generations by
  - Understanding your needs
  - Creating strategies for your **financial and** estate planning needs
  - Offering access to a full-range of products, services and Morgan Stanley specialists
- The end result is a highly customized strategy and process to help you achieve your unique goals and objectives



# Why Should You Plant Your Legacy?

- Increase your retirement income
- Plan for the financial needs of a spouse or loved one
- Provide inheritances for your heirs at a reduced tax cost
- Reduce your income tax and/or avoid capital gains tax
- Diversify your investment portfolio
- Make a larger charitable gift than you thought possible
- Receive income from your personal residence or farm
- Plan for the transfer of your business
- Leave a legacy for future generations



## **What Will Be Your Legacy?**

# Question & Answers – For More Information

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