Morgan Stanley

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

Longer Life Expectancy

Increasing Health Care Costs

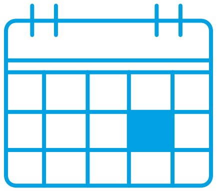
Changes in Corporate Benefits

Social Security Uncertainty

What Are Your Goals and Dreams?

Make a
Major Purchase

Retire
Comfortably



Plan for a
Key Event

Save for Your Children’s
or Grandchildren’s
Education

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 (1)
- Only 39% of investors have a financial plan (2)

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 (2)

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?

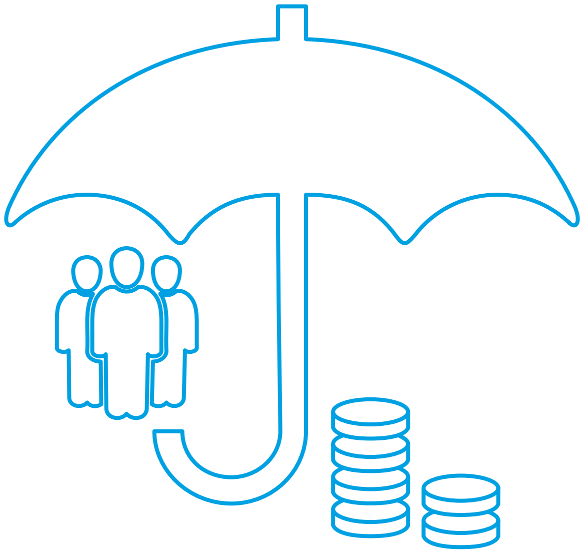
GIFT AND ESTATE TAX EXCLUSION AMOUNTS

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

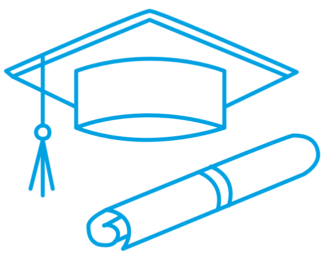


WILL?

- 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



Your Children or Grandchildren Can Go to College

Your Family Can Maintain a Comfortable Lifestyle

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?

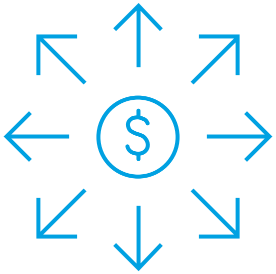
- Parents carry enough life insurance on themselves to provide liquidity at death to pass to non-farm heirs, leaving farm assets to the farming heirs
- Parents gift money to farm heir during their lifetime which would be used to purchase life insurance on the parents with farming heirs as beneficiaries. 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.

Source: University of Minnesota Extension

Preserving Your Assets for Your Heirs

ESTATE PLANNING IS CENTRAL TO SUCCESSFUL WEALTH MANAGEMENT AND CAN

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



Enable You to Arrange for the Distribution of Your Assets

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

Grantor (You)

1 You gift assets to a qualified charity that agrees to pay you fixed distributions for life

3 You receive lifetime fixed distributions immediately or otherwise deferred to begin at a later date

2 **Charitable Gift Annuity**
Created and operated by charity

4 Upon death of last income beneficiary, principal is used by charity

Charity

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.

Source: Iowa State University Foundation

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

Grantor (You)

1 You transfer appreciated assets held longer than one year to an irrevocable trust that names one or more qualified charities as beneficiary

3 You (and possibly other family members) receive distributions for life or a term of years from the trust, as well as an income tax deduction equal to the present value of the charity's remainder interest

2 **Charitable Remainder Trust**
Trustee sells appreciated assets – and avoids immediate capital gains taxes – at full market value and reinvests proceeds in diversified, income-producing assets with tax deferred growth potential

4 Upon the death of the last lifetime beneficiary or at the conclusion of a specified term of years remainder of trust assets goes to charity

Charity(ies)

Gifts That Provide Income (cont'd)

	Charitable Remainder Annuity Trust	Charitable Remainder Unitrust
Distributions	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
Varying Distributions?	No – fixed annual distribution amount	Yes – distributions can vary based on investment performance
Protect Against Inflation?	No	Possibly
Additional Contributions Permitted?	No	Yes

Charitable Remainder Trust

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

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

Hypothetical Illustration. Not representative of any specific investment

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.

Source: Iowa State University Foundation

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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