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# Legacy and Estate Planning

# Agenda



# Everyone has a Unique Vision for Their Legacy

## A Legacy May Encompass Many Things

- Estate Planning
- Next-generation Education
- Philanthropic Goals
- Maintaining Family Harmony

Everyone’s situation is different. We’re just providing some ideas to consider.

Do what works for you.

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# Building A Plan

# Effective Planning Can Make a Difference

Estate planning is a strategy designed to protect, manage, and distribute your assets **during and after** your lifetime, while helping to minimize taxation.

**An estate plan will help protect your legacy and those you care about most.**

## An Estate Plan Can:

- Protect your assets and aid you in preparing for the unexpected.
- Help you plan for your goals.
- Support you in investing in people and causes you care about.
- Reduce unnecessary administrative expenses, taxes, and family conflicts when you pass away.

# Start by Thinking About Your Goals

Legacy planning isn't just for older people. You can consider how to provide for people and causes you care about while balancing your own goals at any age.

Life happens quickly. Make it a priority to coordinate your financial and estate plans.

- TRAVEL
- START OR FUND A BUSINESS
- GIVE TO CHARITY
- RETIRE ON YOUR TERMS

# Build Your Support Team

**To help you assess your options and prepare your next steps, there are professionals who specialize in estate planning.**

## ACCOUNTANT

Advises you on tax tactics and strategies that are specific to your financial situation.

## ATTORNEY

Safeguards you and your family's interests. Can objectively and unemotionally deal with complex issues that may arise.

## FINANCIAL ADVISOR

Helps you understand your assets and your cash flow needs. Identifies strategies to help you with your long-term objectives, like retirement or education planning.

## PERSONALLY APPOINTED ROLES

You may elect to ask friends or family members to play a role in ensuring your legacy. This may include trustees, guardians, healthcare proxies, executors and more.

# Structuring Your Plan Requires Forethought

**Estate planning can be an uncomfortable topic for some, but thoughtful planning and communication can keep your family on the same page as your situation evolves.**

**Setting expectations early and often can help with any transitions and prepare your family for the future.**

### Estate Structure

Your estate plan can help your entire family feel confident on a path forward.

### Preparing for The Unexpected

Insurance can play an important role in protecting you and your family.

### Philanthropic Goals

A clear articulation of the causes you support can help define your legacy.

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# Identifying Your Choices

# Four Crucial Estate Planning Documents

## Every estate plan should include four key documents that outline your wishes.

### Last Will and Testament and/or Revocable Trust

Identifies the person whom you want to handle your affairs after you pass and how you want your assets distributed. The Trustee of the revocable trust would handle assets in the trust before and/or after you pass away.

### Durable Financial Power of Attorney

Appoints the person (your agent) whom you want to make financial decisions on your behalf when you are no longer able or are unavailable to make them for yourself. This document may take effect immediately or on the occurrence of a future event.

### Health Care Directive

Identifies the person (your health care agent), whom you want to make health care decisions on your behalf when you are no longer able to make them for yourself.

### Living Will

Expresses your end-of-life or health treatment wishes, which will guide the action of your health care agent appointed under your health care directive.

# Estate Structure Options

An effective estate plan can help preserve your wishes while balancing the needs of your entire family.

## Direct Gifts or Bequests

### PROS

- ✓ Simplicity
- ✓ Low/no cost to implement

### CONS

- × Beneficiary may not be prepared to or capable of managing assets

## Trusts

### PROS

- ✓ Your wishes can be fulfilled as intended
- ✓ Family harmony may be maintained

### CONS

- × More expensive to implement
- × Estate planning attorney services are required

# The Basics On Trusts

## WHO'S WHO

The **Grantor** creates the trust for the **Beneficiary** – the individual(s) designated to receive or benefit from the assets.

The Grantor appoints a **Trustee** who accepts the assets into the trust and manages the trust and ensures that the provisions of the trust are carried out as intended.

**Trusts can be used to transfer assets. A trust will remain a private document after you're gone.**

### Assets that can be put into a trust include:

- Investments
- Stocks and stock options
- Businesses
- Life insurance policies
- Cash
- Real estate

### There are two common trust structures:

Revocable Trust

Irrevocable Trust

# Revocable Trusts

## REVOCABLE LIVING TRUST

You can change the terms of the trust, transfer assets to or from the trust, or revoke the trust while you're alive.

Because you still control the assets, they are considered part of your estate and are ***subject to both state estate or inheritance taxes (if applicable) and federal estate taxes*** at the time of death.

## PRACTICAL BENEFITS

Revocable trusts help you avoid probate.

**Probate** is the court process necessary to validate a will and appoint a representative who will have legal authority to manage your assets after death.

A local court typically oversees this process to ensure that all debts and taxes are paid ***before*** any distributions are made.

# Irrevocable Trusts

## IRREVOCABLE TRUST

Once the trust has been formed and funded, you no longer own the assets and generally can no longer make any changes to the terms of the trust. The assets now belong to the trust.

In this case, the assets generally are not considered part of your estate and are ***NOT subject to federal estate tax.*** However, assets transferred to a trust may be subject to federal gift tax.

## PRACTICAL BENEFITS

Irrevocable trusts can help protect the trust's assets from creditors or legal judgments because neither the grantor nor the beneficiaries own the assets.

The strategic use of irrevocable trusts may help preserve access to government benefits, especially for individuals with disabilities.

Sophisticated gifting strategies can also be managed via irrevocable trusts.

# Why Create A Trust?

**Not everyone needs a trust, but it's a good option for many. A trust may be expensive to set up, but it can offer more discretion and control in certain situations.**

**Talk to a trusted professional to learn more about your options.**

## Depending on the type of trust you establish, you may be able to:

**Protect** your privacy because the trust document remains private after your death.

**Avoid** probate and the administrative fees associated with that process.

**Gift** assets to individuals or charities.

# Choosing An Executor

An executor is responsible for managing the affairs and administration of a deceased person's estate. Often the executor is a trusted family member but it can be a professional.

## Responsibilities are Largely Chronological and Include:

1. Submitting the will to probate court
2. Notifying all relevant parties of the death
3. Court appoints an estate representative
4. Identifying and gathering all assets
5. Paying the decedent's debts from the estate
6. Calculating and paying taxes from the estate
7. Distributing remaining estate assets to the beneficiaries of the estate
8. Working with the court to close the estate

# Selecting A Trustee

## WHO TO CHOOSE AS A TRUSTEE?

**TRUSTED FRIEND OR RELATIVE**
Caring and has a personal interest

**PROFESSIONAL TRUSTEE**
Time, ability and experience to manage assets, keep records, pay bills, make distributions, prepare tax returns and assume fiduciary responsibilities

**If your plan calls for a trustee, he or she should have the time, skill, judgment and objectivity to fulfill the role. Responsibilities may include:**

### INVESTMENT MANAGEMENT

Overseeing the selection of trust assets to provide liquidity and income in various market conditions, and maintaining the portfolio.

### SOUND JUDGMENT

Distributing income and principal for qualified purposes and being responsive to requests from your beneficiaries.

### TAX MANAGEMENT

Preparing trust tax returns and executing tax-loss harvesting or other tax management investment strategies, as appropriate.

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# Planning for the Unexpected

# Life Happens

Unexpected events can occur at any time, and there are best practices in estate planning that can help your family feel more prepared.

MEDICAL EMERGENCIES

SIGNIFICANT MARKET MOVEMENTS

LEGAL PROCEEDINGS

MILESTONE LIFE EVENTS

# Disability Insurance

Disability insurance provides a source of income to people who are unable to work due to an accident or illness.

Over 25% of American workers experience a disability longer than 3 months at some point in their career.

## LONG-TERM DISABILITY INSURANCE

Provides income when you're unable to work due to disability for 6 months or more, and can last all the way to retirement.*

Benefits are distributed income tax-free if your coverage is paid with after-tax income and can be used on whatever you need them for.

## SHORT-TERM DISABILITY INSURANCE

Provides income when you're unable to work for a shorter period of time, typically 3 - 6 months.*

*Disability insurance does not generally cover 100% of your gross income, so there may be an income gap to plan for.
Source: https://www.policygenius.com/disability-insurance/learn/do-i-need-disability-insurance/

# Long-term Care Insurance

Long-Term Care Insurance helps provide for the broad range of medical and personal services for individuals who need assistance with daily activities for an extended period of time.

## $426 Billion

is the annual total spending on Long-Term Care in the U.S.[1]

## 70%

of adults aged 65 and older will need long-term care services in their remaining years. [2]

Source:

1. Congressional Research Service: Who Pays for Long-term Services and Supports?, 2021.
2. LongTerm Care.gov: How Much Care Will You Need?, 2020.

# Life Insurance [1] is a Key Part of Estate Planning

### Term Life Insurance

- Only active for a certain time period (usually 10-30 years)*
- If you die during that time period, your beneficiaries get the payout

### Permanent Life Insurance

- Active for full life of policy holder*
- Different variations within this category in terms of premiums and beneficiary payouts

## Common Payout Uses Include:

**Final costs**
Funeral, outstanding medical bills, settlement costs, etc.

**Future education costs**
Children, grandchildren, others

**Paying off debt or replacing income of the deceased**

**Federal or state estate taxes**

**Inheritance**

**Charitable contributions**

*assuming all required premiums are paid

1. Source: https://www.iii.org/article/what-are-principal-types-life-insurance

# How Much Life Insurance Do You Need?

Your insurance needs will vary based on your personal and financial circumstances.

Speak to a professional if you need help determining what's best for you and your beneficiaries.

**Typically, people aim for a life insurance policy that pays 10-15 times their annual income.**

**Financial Obligation** (expenses + debt) − **Liquid Assets** = **How Much Life Insurance You May Need** *(aka "Coverage Gap")*

Source: https://www.policygenius.com/life-insurance/how-much-life-insurance-do-i-need/

# Consider an “Emergency Manager”

**Your Emergency Manager is someone you trust to manage your personal business in the event of an emergency.**

### DIGITAL INFORMATION

Usernames, passwords – don’t forget computer, cell phone and tablets!

### ACCOUNT INFORMATION

Account numbers, passwords, vendors/issuers

### LEGAL DOCUMENTS

Copies of all your important legal documents

### KEYS

Keys to your home, car, safe and other important items and places

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# Giving Strategically

# Practice Smart Philanthropy

“

Giving is not just about making a donation.

It’s about making a difference.

**– Kathy Calvin**

## Tips for Smart Philanthropy

- Create a mission statement
- Consider alternative ways to contribute to your charity of choice using time and talent (not just treasure)
- Do your homework on charitable organizations
- Consider designating a charity as a beneficiary of a trust or life insurance policy

# Identifying Who You Want To Support – Your Family, Your Friends, or An Organization – Can Help You Determine The "How"

**Direct bequests** can ensure that people and causes you care about continue to be supported. For example:

- ✓ Support an animal shelter
- ✓ Donate to a religious cause

## Some organizations have giving offices to help donors strategically gift, so you can:

**ENDOW A SCHOLARSHIP**

**ENSURE NAMING RIGHTS**

**MINIMIZE FEDERAL AND STATE ESTATE TAXES**

# Be Strategic with Giving

## It helps to think about philanthropic dollars in three buckets:

### CORE

Organizations, causes or themes tied to your primary passions

### COMMUNITY

Causes you want to support because of where you live or your network (e.g., your alma mater, a local art museum, a friend's nonprofit, etc.)

### IMPULSE GIFTS

Time-sensitive causes you don't see coming and can't plan for (e.g., disaster relief or fundraising events)

# Investment Structures Specifically for Giving

**If you have a philanthropic interest, pairing charitable gifts in big income tax years can be strategic and impactful.**

## DONOR-ADVISED FUNDS

A donor-advised fund is a charitable giving vehicle owned and controlled by a public charity, created to manage charitable donations on behalf of organizations, families and individuals. The charity manages all the administrative duties, but the donor recommends how the funds are used over time.

It may be beneficial to fund a donor-advised fund in peak income years, so that you receive the immediate tax deduction but can continue to spread your giving out over time.

# The Nitty-gritty on Gifting

As of 2023, you can gift up to $12.92 million during your lifetime without paying federal gift taxes. **Remember: Stock gifts count too!**

The annual gift tax **exclusion is $17,000** per recipient without being subject to the federal gift tax. If you give any one individual **more** than $17,000 in one year, the excess amount counts towards your lifetime federal gift tax exemption.

If you're married, your lifetime federal gift tax exemption and annual exclusion double to $25.84 million and $34,000 per beneficiary (if you elect to split gifts in a given calendar year).

You can give as much as you want to your spouse in your lifetime without paying gift tax, as long as he or she is a U.S. citizen.

Source: https://www.irs.gov/pub/irs-drop/rp-22-38.pdf

# The Nitty-gritty on Gifting

## Some Gifts That Are Tax-exempt:

- Gifts to IRS-approved charities
- Gifts to your spouse (if they're a U.S. citizen)
- Gifts to cover tuition, if paid directly to the educational institution (excludes books, supplies, or room & board)
- Gifts to cover medical expenses, if paid directly to the medical facility

Source: https://www.irs.gov/pub/irs-drop/rp-22-38.pdf

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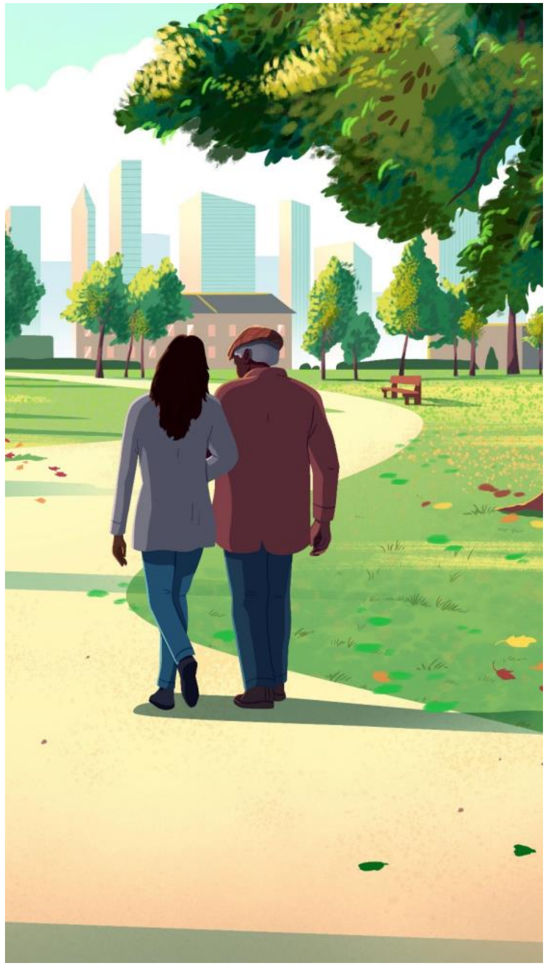
# The Bottom Line

There are a lot of choices to make, but ultimately your thinking should be documented and communicated.

And you can always make adjustments as your situation evolves.

# Estate Planning Objectives



## Your estate plan should:

- Provide liquidity needed for federal and state estate taxes and expenses
- Consider the impact of federal, state and local income, gift and estate taxes
- Specify philanthropic wishes
- Reduce the likelihood of family disputes
- Protect privacy and avoid distribution delays

# Communicate, Communicate, Communicate

Discuss your plans with people who matter to you.

- PARTNER
- PARENTS AND/OR CHILDREN
- TRUSTED FRIENDS
- PROFESSIONALS

# Checklist

| WHAT TO DO | WHO CAN HELP |
| --- | --- |
| **Create an estate plan, including:**<br>• Living will<br>• Last will and testament and/or revocable trust<br>• Power of attorney<br>• Health care directives | *Estate Attorney* |
| **Identify people who you want to play a key role, and talk to them about your wishes** | *Estate Attorney, Financial Advisor* |
| **Determine whether you need to establish one or multiple trusts** | *Estate Attorney, Tax Advisor* |
| **Develop a giving strategy and philanthropic mission statement**<br>• Identify the organizations you feel passionately about | *Financial Advisor, Tax Advisor* |

# The Bottom Line

## GET ORGANIZED

Think about your goals and understand your financial situation so you can create a realistic vision of your legacy.

## BUILD YOUR TEAM

Identify an accountant, estate attorney, tax advisor, and Financial Advisor who can help you understand your options.

## CONSIDER YOUR CHOICES

As you go through this process, you will have to make a lot of decisions. Walk through them one by one and remember you have your team to help.

## DOCUMENT YOUR PLAN

Once you have determined your path forward, work with your estate attorney to document your plan and enlist the rest of your team to begin implementation.

## COMMUNICATE

As you determine what you want your legacy to look like, maintain an open dialogue with your family and your team to help everyone remain on the same page.

# Questions?

## Ready to enroll or change your elections? Questions for your recordkeeper?

Website: https://advisor.morganstanley.com/the-wood-group

## Questions about this presentation or want to speak to us about your finances?

Email:
Carolina.McGoey@morganstanley.com
Nisha.B.Chisena@morganstanley.com
Jay.Wood1@morganstanley.com
Steven.Lazarus@morganstanley.com
Paul.Fitzsimmons@morganstanley.com
Brian.Nerreau@morganstanley.com
Rick.Stone@morganstanley.com

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CRC 5357405 (01/23)