

Morgan Stanley



Securing Your Legacy

[Presenter Name]

[Presenter Title]

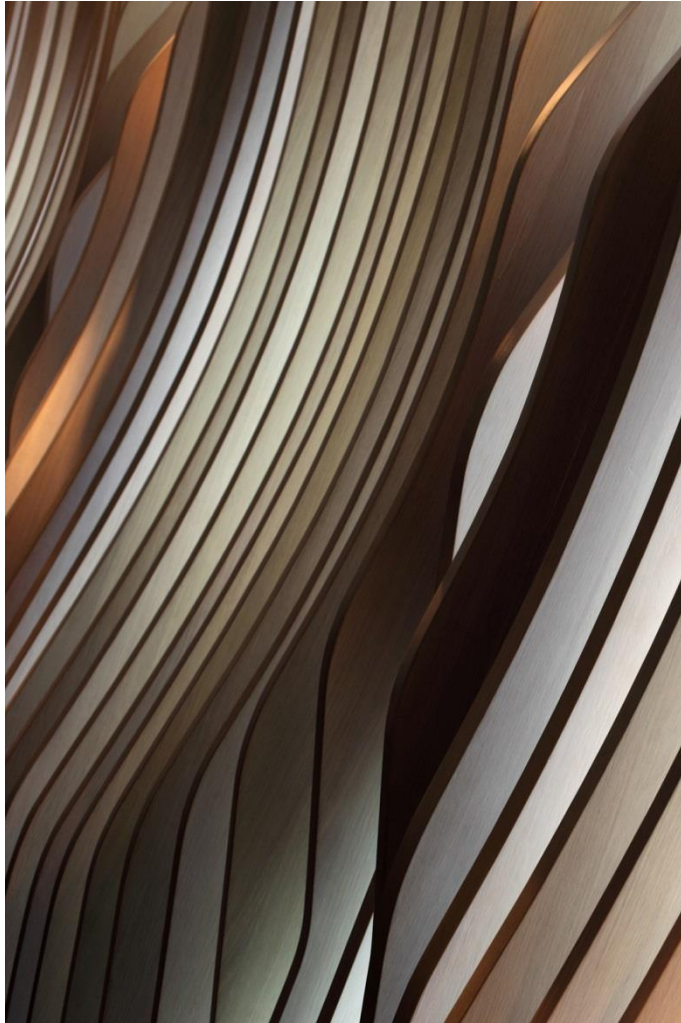
[Date]



Today We'll Talk About:

1. Why You Need an Estate Plan
2. Getting Started
3. Marital Exemptions and Trusts
4. Additional Strategies and Structures
5. Retirement Account Issues
6. Estate Issues for Business Owners
7. Morgan Stanley Resources

Morgan Stanley



SECTION 1

Why You Need an Estate Plan

The Importance of Estate Planning

The process of planning for the accumulation, preservation and transition (or distribution) of your assets in accordance with your wishes

- **Control** who manages and receives your assets at your death
- **Transfer** a greater share of your assets to your beneficiaries by minimizing tax liabilities
- **Protect** your privacy
- **Reduce** administrative expenses and legal fees

What Can Happen Without an Estate Plan

- Substantial tax burdens and legal expenses
- Time delays in the settlement of your estate
- Family conflicts
 - Spouse
 - Children
 - Close/Distant Relatives
 - Friends
- Assets would be paid per state intestacy law and not according to your wishes
- Assets may pass to unintended beneficiaries

When to Create or Review Your Estate Plan

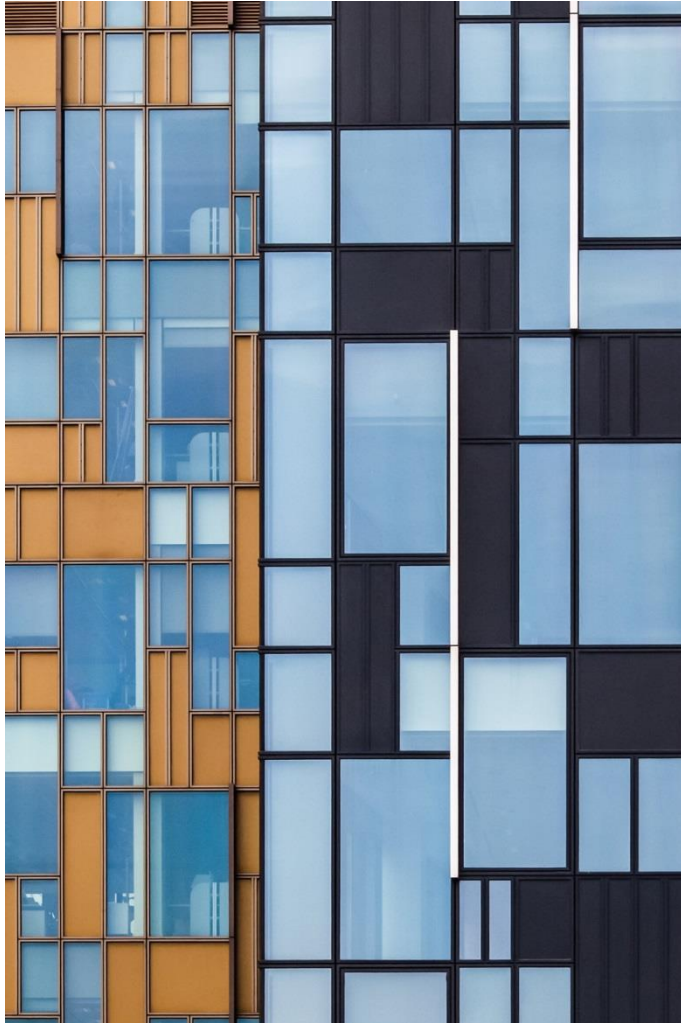
Changes in Your Life

- Marriage / Divorce
- Births / Deaths
- Sale of a Business / Retirement
- Change in Domicile
- Change in Your Beneficiaries' Health
- Change in Net Worth (Including Anticipated Change in Net Worth)
- Change in Relationships With Beneficiaries

Changes in Tax Law

- Federal
- State

Morgan Stanley



SECTION 2

Getting Started

Determining Your Estate Planning Objectives

In General:

- To which people and/or charities do you want your wealth distributed?
- How do you wish to have your wealth distributed to beneficiaries?
- Do you have any concerns about distributing wealth to any beneficiaries?
- When do you want distributions from your estate to begin?
- What would you like your beneficiaries to achieve with their inheritance?
- Who will you nominate as Trustees, Executors, Guardians?
- Who will make your health care and financial decisions if you can't?

If Married:

- Do you plan to leave all your assets to your spouse?
- Do you have any concerns about leaving all your assets to your spouse?
- Does your spouse have an estate plan?

Calculating Your Estate

Your Estate Includes

- + Residential and Investment Real Estate
- + Stocks, Bonds and Funds
- + Checking / Savings Accounts
- + Closely Held Investment Vehicles
- + Life Insurance
- + Family-Owned Businesses
- + Cars/Boats
- + Jewelry / Furs / Art / Collectibles
- + Assets in Safe Deposit Boxes
- + Assets in Living Trusts
- + Annuities and retirement accounts
- + Money owed to you

It Also Includes Outstanding Liabilities

- Mortgages
- Investment-Related Debts
- Personal Loans / Debts
- Tax Liabilities

Creating Your Will Is an Important First Step

Comparing Your Alternatives

	DOING NOTHING	JOINT TENANCY / TRANSFER ON DEATH	WILL
AVOIDS PROBATE?	No	Yes	No
INITIAL COSTS?	None	Minimal	Modest
COSTS AT DEATH?	Significant	Minimal	Significant
TIMELY DISTRIBUTION?	No	Yes	Not Necessarily
CONTESTABLE?	Yes	Yes	Yes
FLEXIBLE?	No	Yes	Yes
PRIVACY?	No	Yes	Potentially

When and How Taxes Are Paid

- Estate taxes are due nine (9) months after death
- Must be paid in CASH
- Assets to help pay estate taxes:
 - Liquid assets
 - Life insurance

Understanding Federal Estate and Gift Tax Exemptions

Under the Terms of the American Taxpayer Relief Act of 2012 & Tax Cuts and Jobs Act

CALENDAR YEAR	ESTATE AND GIFT EXEMPTION AMOUNT (\$)	HIGHEST ESTATE AND GIFT TAX RATE (%)
2021	\$11,700,000 (\$23,400,000 for married couples) ⁽¹⁾ Indexed for inflation	40% ⁽¹⁾

Portability of Exemptions Between Spouses

- Surviving spouse may take advantage of full \$23,400,000 exemption
- Must be U.S. citizens
- Applies only to Federal estate taxes

1. Investopedia. Estate Tax Exemption, 2021. Available at <https://www.investopedia.com/estate-tax-exemption-2021-definition-5114715>.

Morgan Stanley



SECTION 3

Marital Exemptions and Trusts

Unlimited Marital Deduction

- Transfers between U.S. citizen spouses during lifetime or at death
- Transfers may be made either outright or in trust
- No monetary limit to the amount of transfer to U.S. citizen spouse

Marital Trusts

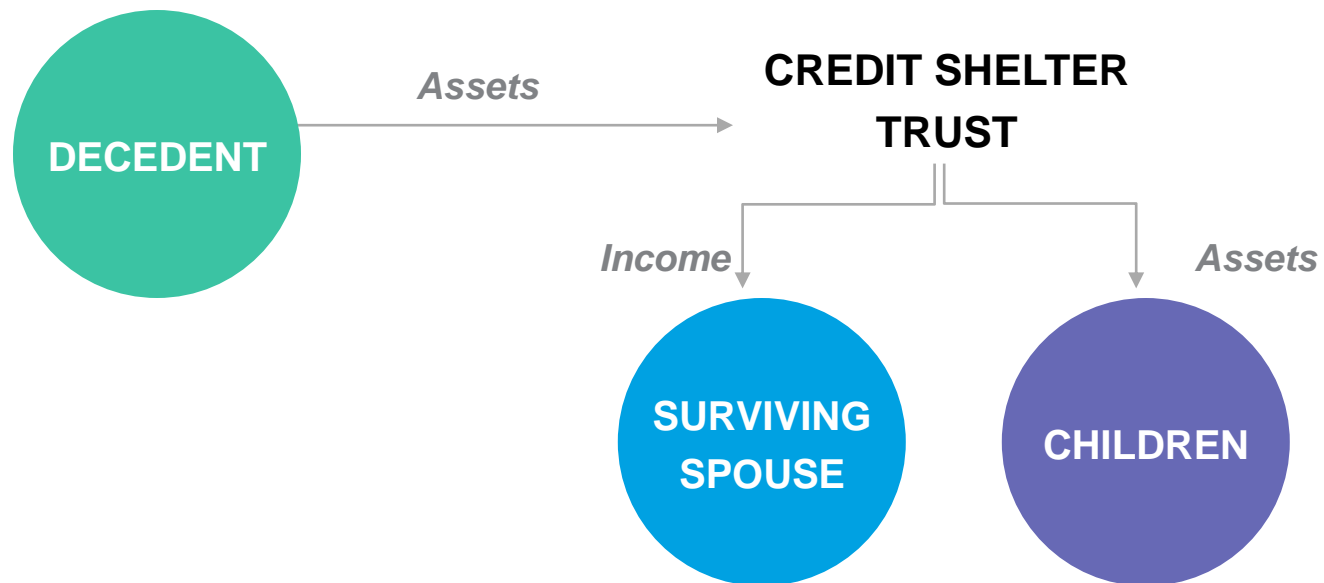
- Power of Appointment Trust
 - All trust income must be payable to the surviving spouse at least annually for life
 - Must give surviving spouse a general power of appointment that includes power to appoint to the surviving spouse or his or her estate
 - No other person can be a beneficiary during the surviving spouse's life
- Qualified Terminable Interest Property
 - A marital trust that must pay all net income to the surviving spouse
 - Upon the death of the surviving spouse, the decedent may give the surviving spouse a power of appointment

Qualified Disclaimer Trust

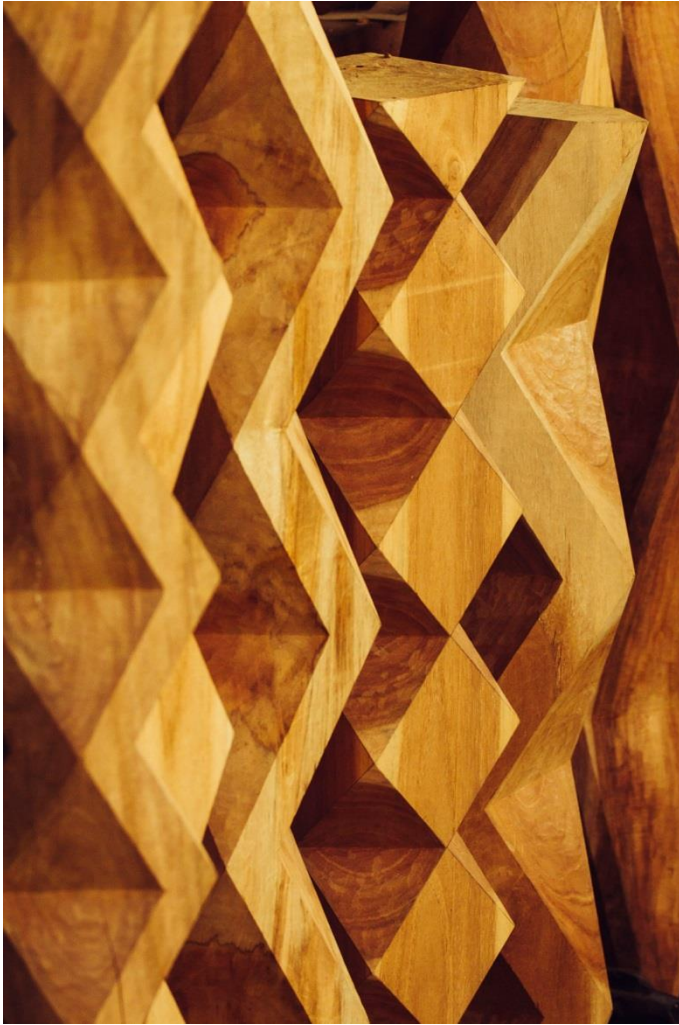
- Section 2518 of the Internal Revenue Code
- Disclaimer must be made within nine (9) months of death in writing to the Executor of the Estate or the Trustee of the Revocable Living Trust to be considered a qualified disclaimer
- Surviving spouse makes decision on whether to disclaim assets to take advantage of decedent's estate tax exemption amount
- May provide income and access to trust principal to the surviving spouse
- At surviving spouse's death, assets usually pass to trust beneficiaries free of federal estate taxes

Credit Shelter Trust

- Also known as a bypass trust, B trust, and exemption trust
- Usually funded at death of first spouse to take advantage of decedent's estate tax exemption amount
- Often provides income to surviving spouse
- At surviving spouse's death, assets usually pass to children



Morgan Stanley



SECTION 4

**Additional Strategies
and Structures**

Revocable Living Trust

- Legal arrangement to manage and transfer assets/property
- Allows for complete control
- Avoids probate when properly funded
- Privacy
- Provides continuity of management
- Experienced and professional asset management

Charitable Remainder Trust



1. You transfer highly appreciated assets to an irrevocable trust that names one or more qualified charities as remainder beneficiaries
2. Trustee sells appreciated assets at full market value and reinvests proceeds in a diversified portfolio
3. You (and possibly other family members) receive fixed distributions from the trust, as well as an income tax deduction equal to the present value of the charity's remainder interest
4. Trust is not subject to income tax, but distributions are subject to tax at the recipients. Distributions come from classes of income in a tiered system
5. When you (or the last lifetime beneficiary) die or the fixed term ends, the remainder of trust goes to charity

Life Insurance

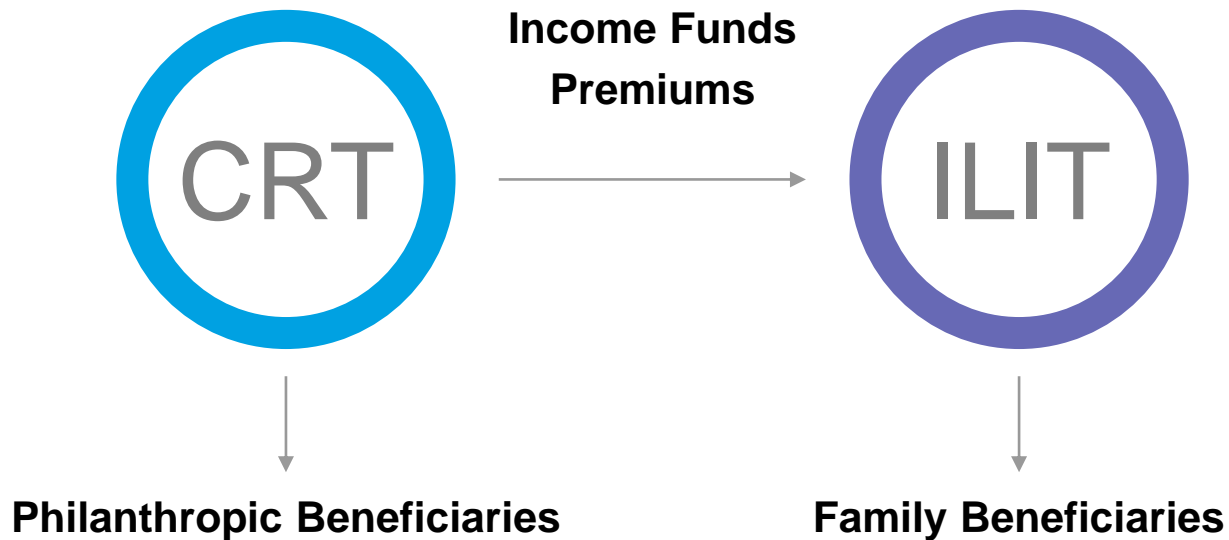
Provides an income tax-free benefit to your beneficiaries when they may need liquidity

The Many Uses of Life Insurance

- Source of liquidity for estate settlement, medical and funeral costs
- Provide funds for family foundation / family business
- Replaces lost future earnings, as applicable

Irrevocable Life Insurance Trust (ILIT)

- Trustee manages life insurance proceeds
- Wealth replacement strategy may be combined with philanthropic strategy



Special Circumstances

- Special Needs Trusts for family members with special needs
- QTIP Trusts for second marriages and/or children from prior relationships
- Planning for unmarried couples
- Qualifying Domestic Trusts for foreign nationals and resident alien spouses

Morgan Stanley



SECTION 5

Retirement Account Issues

Planning for Large Retirement Account Balances

- Objectives of planning for large retirement plans:
 - Minimize or defer estate taxes
 - Provide liquidity to pay estate taxes
 - Defer income taxes
 - Extend the distribution period to 10 years or, in limited circumstances, the beneficiary's life expectancy

Required Distributions

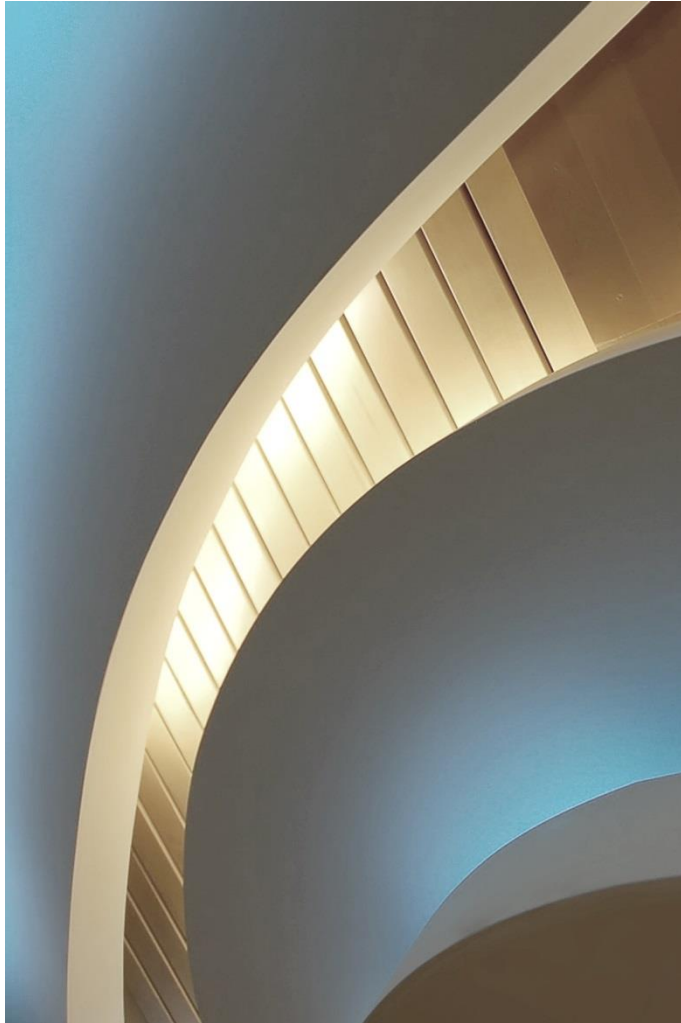
- Minimum Distributions
 - When a retirement account owner or beneficiary must begin taking distributions
 - How much must be distributed each year
- How Required Minimum Distributions (RMD) are Determined
 - Uniform Lifetime Table for RMD
 - Joint and Last Survivor Table for RMD

Minimizing Tax Liabilities on Inherited Retirement Plans



LIFE INSURANCE can be used to provide liquidity so that retirement plan assets do not need to be liquidated in order to pay estate taxes, if any, when due

Morgan Stanley



SECTION 6

**Estate Issues
for Business Owners**

Cross-Purchase Agreement

- Agreement between partners in a business to buy each other out if a triggering event occurs
- Remaining owners buy the departing owner's share of the business at its current value
- Cost basis of their new share of the business will be based on the purchase price, thereby reducing potential capital gains tax liability on any future sale

How Many Life Insurance Policies Will You Need to Fund the Agreement:

Number of partners = N

$N*(N-1)$ = Number of required policies

Example: A business has three partners

$3*(3-1) = 6$ policies are required. Each of the three partners owns and pays premiums on two policies

Entity Purchase / Stock Redemption Agreement

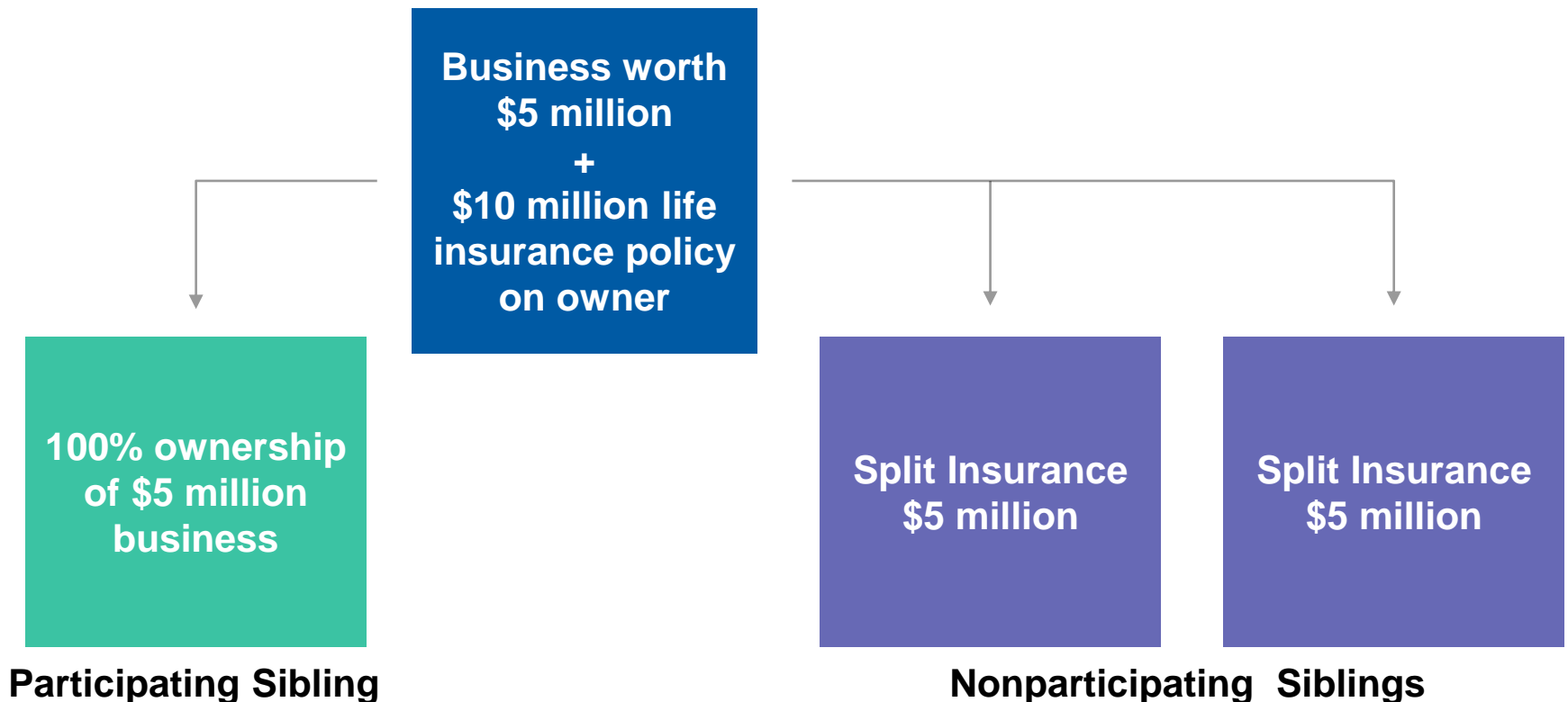
- Agreement between the business and business owners
- Partnership or corporation agrees to buy out owner's interest if a triggering event occurs
- Cost basis does not increase for other owners

Only one insurance policy per owner is required.

The company owns the insurance policies and pays premiums on them.

Estate Equalization

Life insurance can be used to divide an estate equally among beneficiaries who have an unequal level of participation in the family enterprise



Morgan Stanley



SECTION 7

Morgan Stanley Resources

Morgan Stanley Resources

- Financial Advisor
 - Your personal resource
 - Access to a wide array of investment products and wealth planning capabilities
- Wealth Planning Centers
 - Personal Wealth Analysis
 - Objective and highly customized to client
 - Wealth Planning Center professionals are available to work with you, your attorney, your tax advisor and your Morgan Stanley Financial Advisor
- Third-party Trust and Administrative Services

Thank you

We are here to help you address the complex challenges of managing your wealth.

Let's have that conversation.

(FA CONTACT INFO)

Disclaimer

This presentation does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this presentation may not be appropriate for all investors. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.

Morgan Stanley Smith Barney LLC does not accept appointments nor will it act as a trustee but it will provide access to trust services through an appropriate third-party corporate trustee.

Morgan Stanley Smith Barney LLC offers insurance products in conjunction with its licensed insurance agency affiliates.

Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning, charitable giving, philanthropic planning and other legal matters.

Diversification does not assure a profit or protect against loss in declining financial markets.