



**NaviPlan Extended Online/Offline  
Self-Study Guide  
Estate Objectives and  
Testamentary Trusts**

**USA version 10.2**

EISI, Winnipeg

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# Contents

<b>Using the Self-Study Guides .....</b>	<b>1</b>
Conventions .....	1
Prerequisites.....	1
Finding more information .....	2
 <b>Estate objectives and testamentary trusts.....</b>	 <b>3</b>
Learning objectives .....	3
Estate planning assumptions.....	3
Estate planning in Level 1 Plans vs. Level 2 Plans.....	5
Assumptions.....	7
Funded trusts .....	9
Gifting growth and history .....	11
Estate expenses.....	12
Overview of the Estate Planning — Scenarios category .....	12
Scenario list.....	13
Gifting.....	15
Trusts .....	16
Creating marital and credit shelter trusts .....	17
Estate either dies first .....	19
Asset estate details .....	20
Creating a detailed scenario.....	21
Analyzing results with reports and graphs.....	26
 <b>Exercises .....</b>	 <b>29</b>
 <b>Conclusion .....</b>	 <b>35</b>
 <b>Answers to estate objectives and testamentary trusts .....</b>	 <b>35</b>
 <b>Index.....</b>	 <b>37</b>



# Using the Self-Study Guides

The NaviPlan Extended Self-Study Guides are intended to be used with the NaviPlan Extended Online/Offline application to help you learn how to use NaviPlan.

Each NaviPlan Extended Self-Study Guide covers a different topic. The following topics are covered in these guides:

- Deficit coverage
- Planning strategies
- Life insurance
- Basic life insurance
- Stock options

For information on the Ibbotson Asset Allocation option, contact the EISI Sales department at (888) 692-3474 (press 2 to speak to a sales representative).

**Note:** The NaviPlan Extended Self-Study Guides were created using NaviPlan Extended with the Ibbotson Asset Allocation option. This option allows users to use actual Ibbotson return rates in NaviPlan's calculations. If you are using a version of NaviPlan without the Ibbotson Asset Allocation option, there will be some differences between the guides and your version of NaviPlan.

## Conventions

The NaviPlan Extended Self-Study Guides include the following conventions:

- The names of items that are labeled on the screen are capitalized and italicized. For example,  
The *Clients* page opens.
- Within instructions, the names of items that are labeled on the screen, and items that you must select, click, or type appear in bold. For example,  
Select **My Clients**, and then click **Go**.

## Prerequisites

The self-study guides assume that you are familiar with the basics in NaviPlan Extended. You are able to create a client file and a base plan, and you can use NaviPlan to analyze your clients' ability to meet their current needs.

## Finding more information

If you have a question that is not answered in the self-study guides, there are other places to look for additional help.

### Help

The fastest way to get information about any command, dialog box, or item within NaviPlan Extended Online/Offline is to use the Help.

To access the Help, click the **Help** link at the top of the NaviPlan window.

### support.eisi.com

Visit our Web site to access the following resources:

- Training video clips
- Live Web-based training
- Reference Guides
- Release Notes
- Technical Support
- NaviPlan Support Forums
- NaviPlan User Services

To access these resources, do one of the following:

Click the **Support** link in NaviPlan Extended.

OR

1. Go to [support.eisi.com](http://support.eisi.com).
2. Click **US**.
3. Under *Offline format*, click **NaviPlan Extended Offline**.

OR

You can go directly to

[http://support.eisi.com/support\\_us/npe\\_offline/v10.2/index.htm](http://support.eisi.com/support_us/npe_offline/v10.2/index.htm).

Bookmark or add this page to your favorites in your Internet browser for future reference.

# Estate objectives and testamentary trusts

## Learning objectives

This module will enable you to

- Describe estate planning assumptions
- Incorporate current estate plan details
- Analyze a *Simple Will* scenario
- Model gifting strategies
- Create a *Marital/CST* trust scenario
- Analyze the results with reports and graphs
- Implement a proposed estate plan

You may find it helpful to have NaviPlan Extended open while you work your way through this self-study guide.

## Estate planning assumptions

Before you begin an estate plan for clients, it is important that tax options are set up according to the clients' wishes.

Tax provisions under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) are being phased in over a ten-year period. Federal legislation includes a sunset clause that prevents tax changes from being extended for more than ten years. At the end of ten years the provisions under EGTRRA will be repealed and all tax provisions set out in EGTRRA will be void at the end of 2010. In 2011 the tax laws will revert to those in place in 2001, before EGTRRA, unless the laws are changed before the end of 2010.

Because of the uncertainty concerning EGTRRA after 2010, your clients may want to make different assumptions as to how the provisions of EGTRRA will affect their plan.

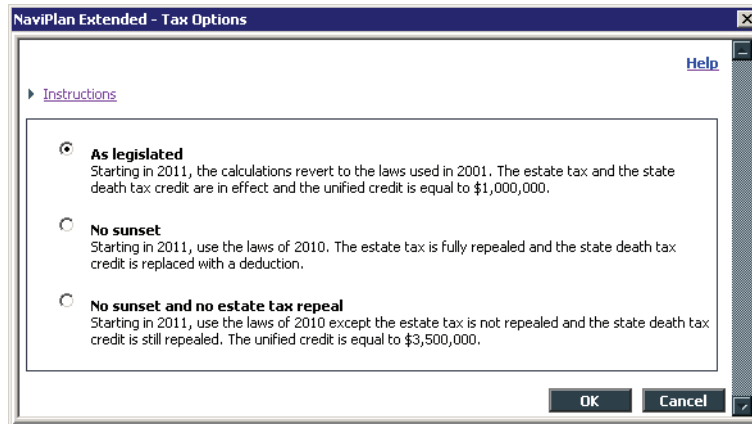


Figure 1: Getting Started section – Assumptions category – General page – Tax Options dialog box

Three tax options are available to account for EGTRRA's sunset clause for income and estate taxes.

- **As legislated** – Starting in 2011, the calculations revert to the laws used in 2001. The estate tax and the state death tax credit are in effect and the unified credit is equal to \$1,000,000. At the end of 2010, any Roth 401(k) or Roth 403(b) assets will be converted to 401(k) or 403(b) assets. The Jobs and Growth Tax Relief and Reconciliation Act of 2003 (JGTRRA) provisions will sunset as legislated.
- **No sunset** – Starting in 2011, the laws of 2010 are used. The estate tax is fully repealed and the state death tax credit is replaced with a deduction. The sunset provision will not be used. The JGTRRA provisions will sunset as legislated.
- **No sunset and no repeal** – Starting in 2011, the laws of 2010 are used except the estate tax is not repealed and the state death tax credit is still repealed. The sunset provision will not be used. The JGTRRA provisions will sunset as legislated.

## Estate planning in Level 1 Plans vs. Level 2 Plans

The *Estate Planning* module must be selected on the *Getting Started* section – *Select Modules* category – *Select Modules* page before you can enter the clients' existing estate information in either plan level.

In Level 1 Plans, the *Goals* section – *Estate Planning* category is limited to a few pages and you can enter a maximum of two scenarios.

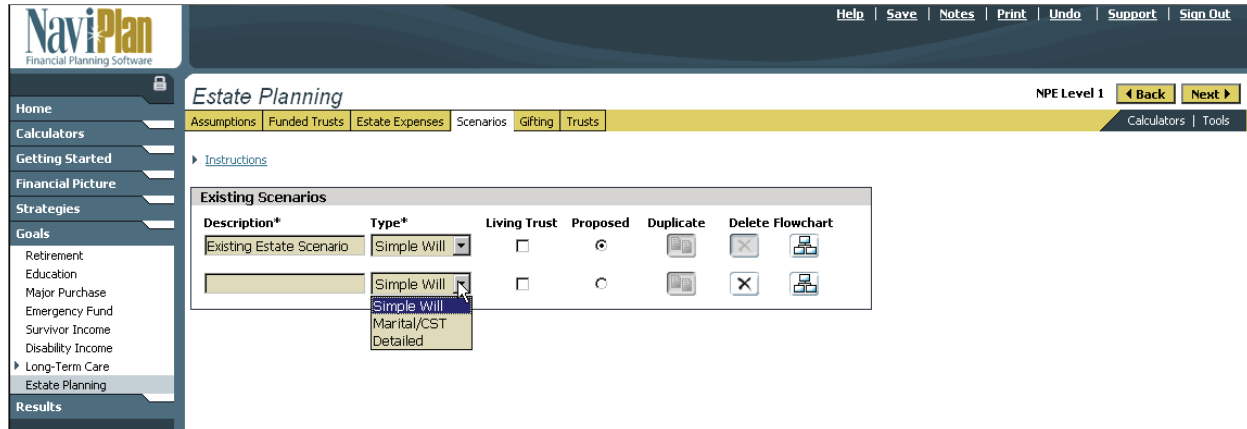


Figure 2: Goals section – Estate Planning category – Scenarios page (Level 1 Plan)

In Level 2 Plans, the *Goals* section – *Estate Planning* category is split into two categories, *Setup* and *Scenarios*.

- In the *Setup* category, you can enter estate objectives, historical information, and enter expenses that are likely to be associated with the clients' deaths.
- In the *Scenarios* category, you can create different estate planning scenarios to present alternative scenarios to your clients.

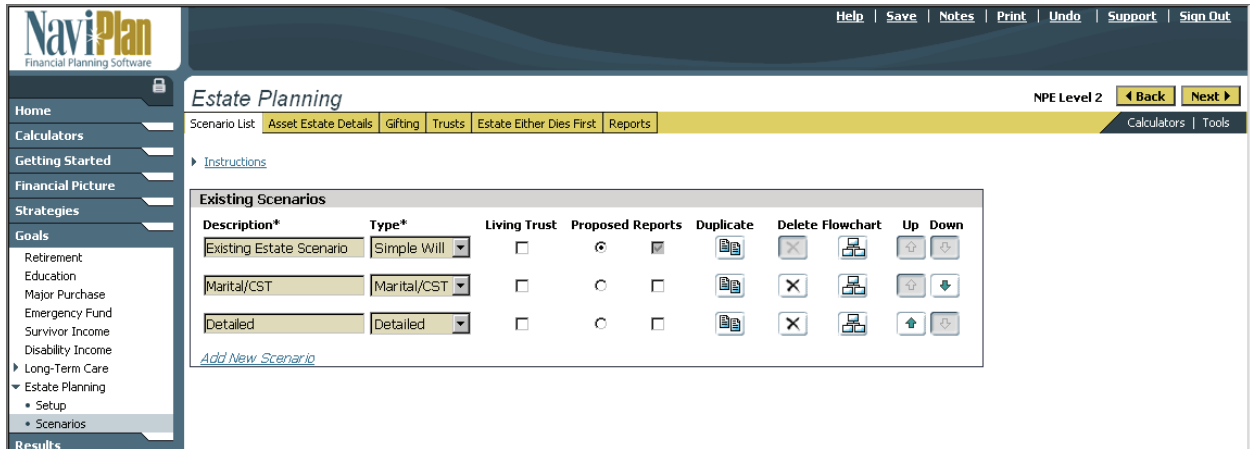


Figure 3: Goals section – Estate Planning – Scenarios category – Scenario List page (Level 2 Plan)

A Level 2 Plan has more detailed estate planning options and allows you to create more than two scenarios for your clients.

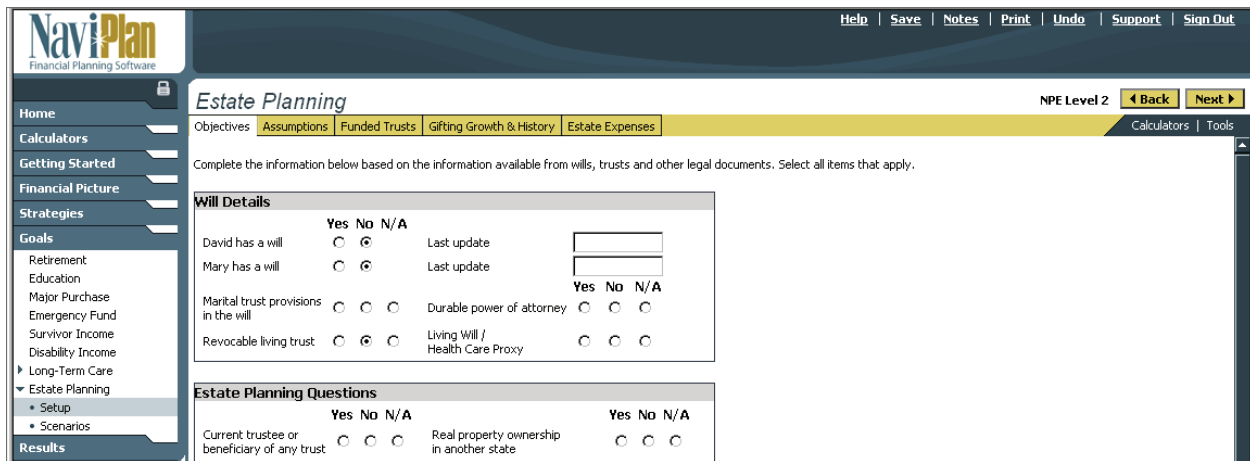


Figure 4: Goals section – Estate Planning – Setup category – Objectives page (Level 2 Plan)

The Goals section – Estate Planning – Setup category has five pages.

- *Objectives* – The information you enter on this page has no actual effect on the plan. Enter data about estate goals on this page.
- *Assumptions* – Enter life expectancies, estate distribution, state death taxes, and fee calculations.
- *Funded Trusts* – Enter existing trusts already paying income.
- *Gifting Growth & History* – Enter past gifting information.
- *Estate Expenses* – Enter deductible estate expenses.

## Assumptions

The screenshot shows the NaviPlan Financial Planning Software interface. The top navigation bar includes links for Help, Save, Notes, Print, Undo, Support, and Sign Out. The main title is "Estate Planning" with a sub-tab for "Assumptions". The left sidebar shows a navigation menu with categories like Home, Calculators, Getting Started, Financial Picture, Strategies, Goals, and Results. The main content area is titled "Estate Planning" and includes a "Life Expectancy Scenarios" table, an "Estate Distribution Selection" section with radio buttons for "Mirror Wills/Either Dies First" and "Specify by Order of Death", a "State Death Taxes" section with dropdown menus for "State" and "Override" checkboxes, and an "Additional Fees" table.

	David		Mary		Reports
	Age	Year	Age	Year	
Life Expectancy	90	2056	90	2058	<input checked="" type="checkbox"/>
Alternate Life Expectancy	55	2021	48	2016	<input type="checkbox"/>
Simultaneous Death	Year 2006		Assumed first death David		<input type="checkbox"/>

**Estate Distribution Selection**

**Mirror Wills/Either Dies First**  
(details entered apply regardless of order of death illustrated)

**Specify by Order of Death**  
(separate data entry allowed to illustrate client or co-client dying first)

To override the defaults, select Override, and then choose an alternative option for calculating state death taxes. Inheritance fields are available for inheritance states.

**State Death Taxes**

David State: Virginia Mary State: Virginia

Override  Override

Enter the appropriate probate and administration fees as either a percentage or a dollar amount. The dollar amount can be indexed to inflation plus or minus any percentage.

	David	Mary
	(\$ or %)	(\$ or %)
Probate Fee	1%	1%
Administration Fee	1%	1%

Figure 5: Goals section – Estate Planning – Setup category – Assumptions page

Using the fields under *Life Expectancy Scenarios* on this page, you can simulate deaths (the hypothetical age at which clients die) at various ages. You may want to simulate deaths at different ages to plan for the time when the clients have the highest net worth vs. the lowest net worth. Three different life expectancy scenarios are available and can be included in reports. The *Reports* check box is selected by default for the *Life Expectancy* scenario only.

- *Life Expectancy* – The default value is 10 years into the future for the client and 15 years into the future for the co-client.

- *Alternate Life Expectancy* – The default value is 15 years into the future for the client and 10 years into the future for the co-client (the reverse defaults of the *Life Expectancy* fields).
- *Simultaneous Death* – Use this field to simulate both clients dying in the same year. Simultaneous death cannot be simulated by entering the same year of death for the client and co-client in the *Life Expectancy* and *Alternate Life Expectancy* fields because both deaths would be assumed to occur on December 31 without an assumption of first death, which may result in trusts not being properly funded.

Under *Estate Distribution Selection*, you can define whether death order affects the testamentary plans that will be used. If the *Mirror Wills/Either Dies First* option is selected, the scenario will use the same testamentary plans regardless of death order. If the *Specify by Order of Death* option is selected, the testamentary plans used can be changed based on which client dies first. In Level 1 Plans, only the *Mirror Wills/ Either Dies First* option is available.

Under *State Death Taxes*, you can define the state on which death taxes are based. If the *Override* check box is not selected, taxes are based on the state entered on the *Home* section – *Personal Info* category – *Client information* page.

Under *Additional Fees*, you can change the probate and administration fee rates. The default value for both fees is 1% of the gross estate. In Level 1 Plans, the default value for probate and administration fees cannot be changed.

## Funded trusts

Use the *Funded Trusts* page to model trusts that already have funding instruments, such as assets, in place and that already produce income for the clients. For example, if the clients transferred a life insurance policy to an ILIT in a previous year, the policy details would be entered here. A credit shelter trust from a previous marriage that is paying income to the client would also be entered here. In Level 1 Plans, only funded CSTs, marital trusts, and ILITs can be entered. In Level 2 Plans, you can enter many different types of funded trusts.

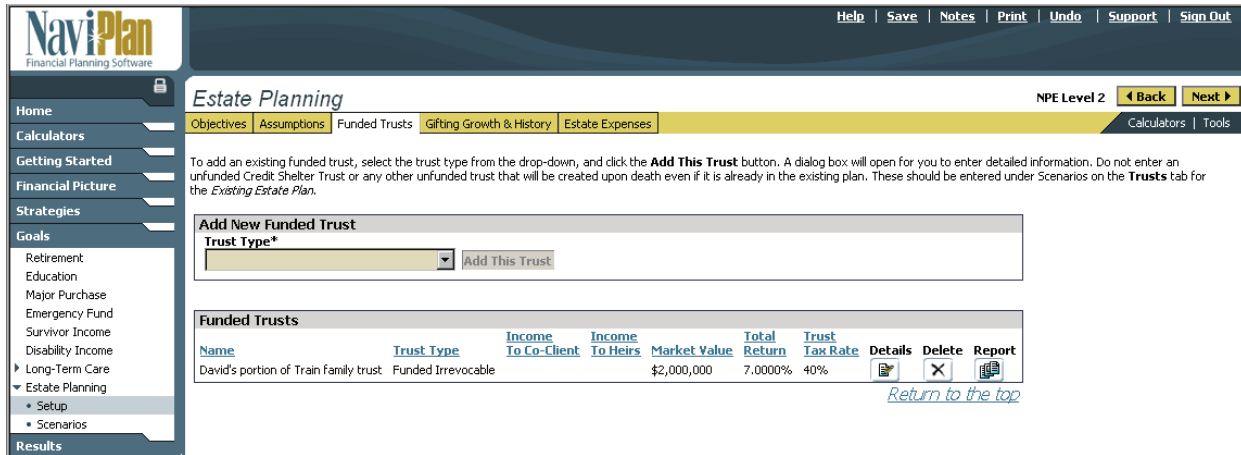


Figure 6: Goals section – Estate Planning – Setup category – Funded Trusts page

When you select the trust type, and then click **Add This Trust**, the *Edit Trust* dialog box opens. Although many different types of trusts can be selected (in Level 2 Plans), the dialog box looks very similar for all.

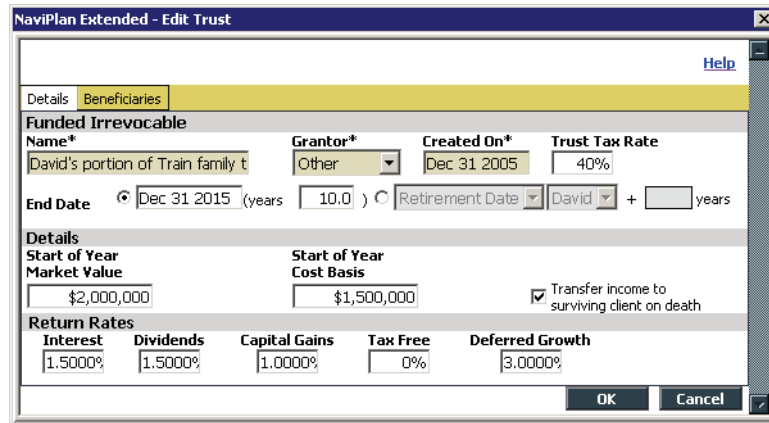


Figure 7: Goals section – Estate Planning – Setup category – Funded Trusts page – Add This Trust button – Funded Irrevocable trust type selection – Edit Trust dialog box

Under the type of trust, (for example, in Figure 7 it is *Funded Irrevocable*), the basic details of the trust like grantor, tax rate, and the terms of the trust (if any) can be defined.

Under *Details*, the current value of trust assets is identified.

Under *Return Rates*, you can specify the rates of return earned by the assets funding the trust. The income is directed to the income beneficiaries.

Go to the *Beneficiaries* tab.

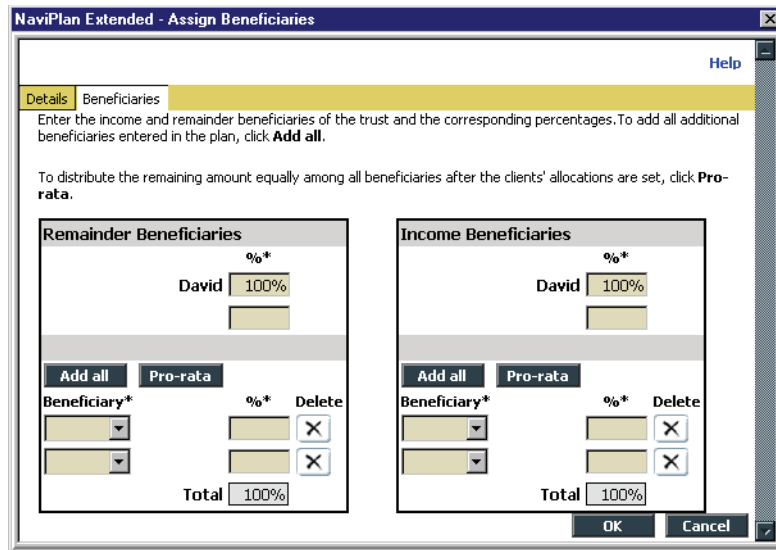


Figure 8: Goals section – Estate Planning – Setup category – Funded Trusts page – Details button – Edit Trust dialog box – Beneficiaries tab

In this dialog box, you can specify what percentage of the trust income or remainder goes to the client, co-client, and other beneficiaries. From the *Beneficiary* list, you can select family members and any estate beneficiaries that were set up for the clients on the *Getting Started* section – *Personal Information* category – *Client Information* page.

You can generate a single trust report that summarizes the details of the trust, cash flow, and distribution by clicking the *Report* button on the *Goals* section – *Estate Planning* – *Setup* category – *Funded Trusts* page.

## Gifting growth and history

The *Gifting Growth & History* page is not available in Level 1 Plans. In Level 2 Plans, you can use it to capture historical gifting information.

For each beneficiary, enter current fair market value of prior gifts. The growth rate applies to both prior and future gifts. The tax rate represents an average tax rate that is applied to the growth of the gifts.

Prior cash gifts should include accumulated growth.

Beneficiary	Prior Gifts		Prior Gifts (with Growth)		Growth Rate	Income Tax Rate
	David	Mary	David	Mary		
Red Cross	\$0	\$0	\$0	\$0	3.00%	0.00%
Michael	\$0	\$0	\$0	\$0	3.00%	0.00%
Other	\$0	\$0	\$0	\$0	3.00%	0.00%

Historical Data					
Member	Taxable	Applicable	Gift Taxes	Lifetime GSTT	GSTT
	Lifetime Gifts	Credit used	already paid	exemption used	already paid
David	\$0	\$0	\$0	\$0	\$0
Mary	\$0	\$0	\$0	\$0	\$0

Figure 9: Goals section – Estate Planning – Setup category – Gifting Growth & History page

It is important to capture historical gifting information because

- Gifting growth on prior and future gifts will show the true value of assets bypassing the estate
- Historical gifts and taxes paid affect the calculation of the amount of the applicable gift exclusion and applicable credit used

## Estate expenses

Use the *Estate Expenses* page in either Level 1 or Level 2 Plans to capture expenses that occur at death (for example, burial, or last illness expenses). These lump-sum expenses are deducted from the gross estate for estate tax purposes.

The screenshot shows the NaviPlan software interface. The top navigation bar includes 'Help | Save | Notes | Print | Undo | Support | Sign Out'. The main header is 'Estate Planning' with 'NPE Level 2' and 'Back | Next' buttons. Below the header is a breadcrumb trail: 'Objectives | Assumptions | Funded Trusts | Gifting Growth & History | Estate Expenses'. A sidebar on the left lists various categories: Home, Calculators, Getting Started, Financial Picture, Strategies, Goals (with sub-items: Retirement, Education, Major Purchase, Emergency Fund, Survivor Income, Disability Income, Long-Term Care, Estate Planning, Setup, Scenarios), and Results. The main content area is titled 'Estate Expenses' and contains a table with the following data:

Expense Name*	Owner*	Amount*	Infl +/- Add'l	Delete
Funeral	1st to Die	\$10,000	<input checked="" type="checkbox"/> + 3.00%	X
			<input type="checkbox"/> + 0.00%	X
			<input type="checkbox"/> + 0.00%	X
			<input type="checkbox"/> + 0.00%	X

Below the table is a 'Display' dropdown menu set to 'new entry row(s)'.

Figure 10: Goals section – Estate Planning – Setup category – Estate Expenses page

## Overview of the Estate Planning — Scenarios category

The *Goals* section – *Estate Planning* – *Scenarios* category has the following pages.

- *Scenario List* – Create and manage estate planning scenarios.
- *Asset Estate Details* – Retitle assets, modify applicable fees, and modify estate availability for assets. (Level 2 Plans only)
- *Gifting* – Model regular, lump-sum cash and asset (Level 2 Plans only) gifts.
- *Trusts* – Model new inter vivos trusts that have not yet been established.
- *Estate Either Dies First OR Estate Client/Co-Client Dies First* – Model testamentary bequests and trusts. (Level 2 Plans only)
- *Reports* – Generate estate planning reports.

## Scenario list

Multiple estate scenarios can be created in Level 2 Plans, but in Level 1 Plans, only two scenarios can be created.

On the *Scenario List* page, you can create, name, duplicate, and manage multiple scenarios.

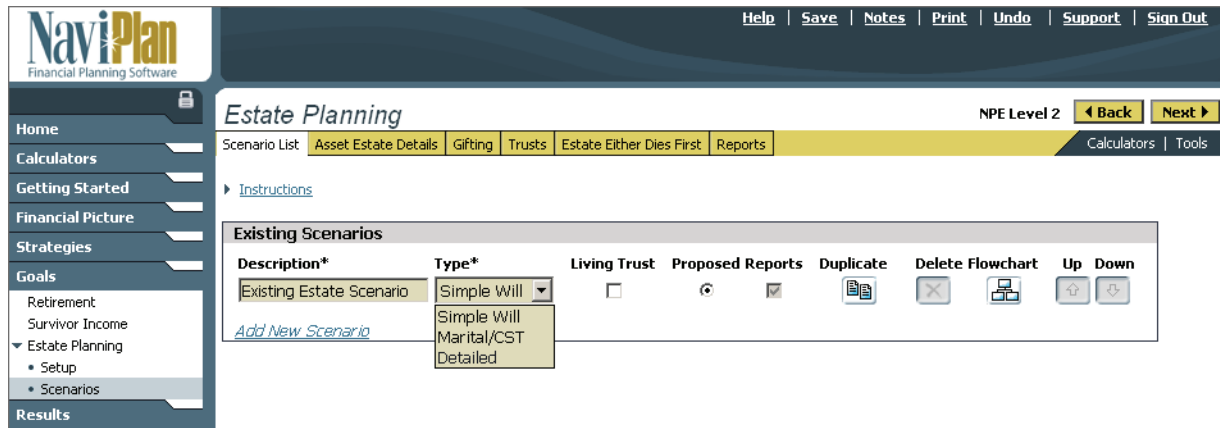


Figure 11: Goals section – Estate Planning – Scenarios category – Scenario List page

The *Existing Estate Scenario* is a default scenario that represents the clients' current estate planning strategies including any funded trusts that were entered on the *Goals* section – *Estate Planning* – *Setup* category – *Funded Trusts* page. The existing scenario can be *Simple Will*, *Marital/CST*, or *Detailed*. This scenario cannot be deleted and is used as a reference point from which to compare all other scenarios. The existing scenario is always included in reports and will always be reported first when compared to other scenarios. If any gifting strategies are in effect, model them into this scenario on the *Gifting* page.

When you choose the scenario you want to implement, select the **Proposed** option next to it, and it will be implemented into the plan's cash flow and net worth.

The *Flowchart* button generates a report that shows the flow of capital in a flowchart and a printer-friendly mode. You can also generate a more interactive report with the same format from the *Reports* page in this category.

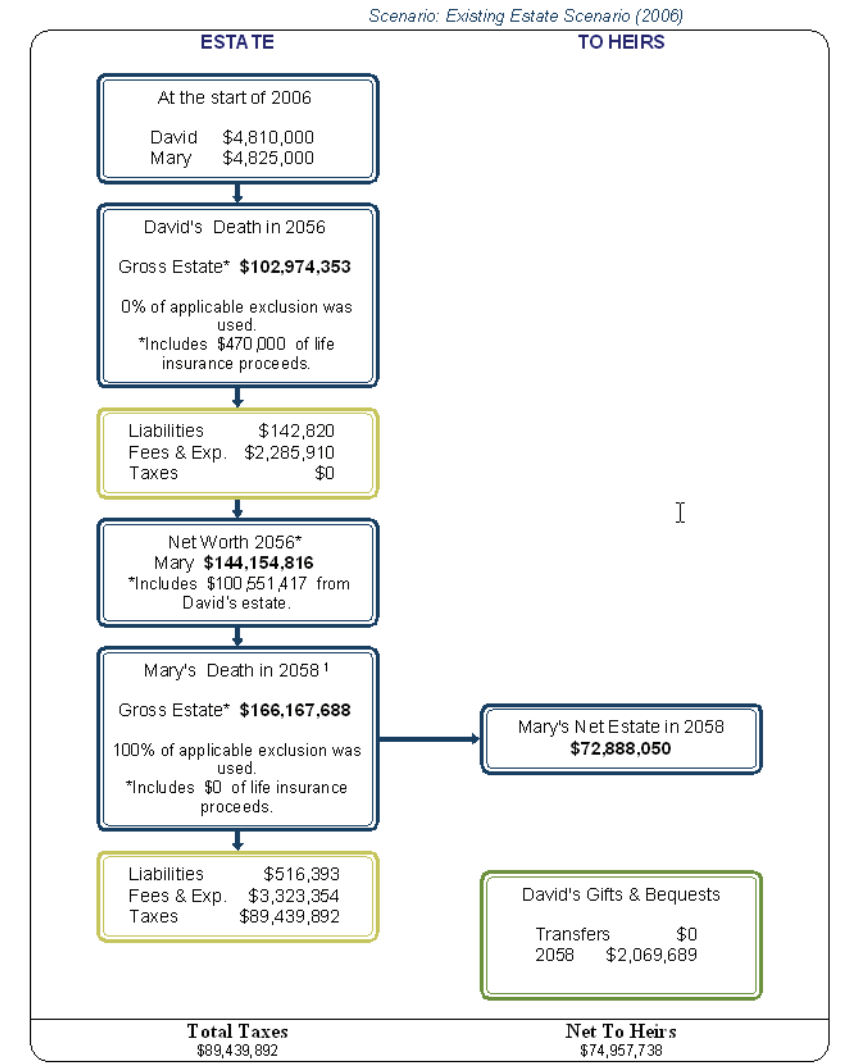


Figure 12: Scenario: Existing Estate Scenario report (Goals section – Estate Planning – Scenarios category – Scenario List page – Flowchart button)

We will skip the *Asset Estate Details* page for now. We'll come back and discuss this page later.

## Gifting

You can model gifting strategies on the *Gifting* page by adding periodic cash gifts, lump-sum cash gifts, and asset gifts that are deemed to occur during the clients' lifetimes. In Level 1 Plans, there is no asset gifting.

The screenshot shows the NaviPlan software interface for the Gifting page. The top navigation bar includes links for Help, Save, Notes, Print, Undo, Support, and Sign Out. The main header displays 'Estate Planning' and 'NPE Level 2' with 'Back' and 'Next' buttons. Below the header, there are tabs for Scenario List, Asset Estate Details, Gifting, Trusts, Estate Either Dies First, and Reports. The Gifting page is currently selected. A dropdown menu shows 'Existing Estate Scenario' as the selected scenario. Below this, there is a text box for entering gift details. The page is divided into three sections: Regular Cash Gifts, Lump Sum Cash Gifts, and Asset Gifts. Each section has a table for data entry with columns for Description, Gifted By, Gifted To, Split Gift, Max. Annual Gift Exclusion, Annual Amount, Start Date, End Date, Inflation, and Delete. The Regular Cash Gifts table has two rows with \$0 amounts and Jan 1 2006 start dates. The Lump Sum Cash Gifts table has two rows with \$0 amounts and Jan 1 2006 gift dates. The Asset Gifts table has two rows with empty fields and Jan 1 2006 gift dates.

Figure 13: Goals section – Estate Planning – Scenarios category – Gifting page

To model current gifting, select **Existing Estate Scenario** from the *Scenario* list. To model gifting in What-If scenarios, select the appropriate scenario from the list.

In the data-entry fields, you can indicate who is gifting the gift (creates an expense), the amount of the gift, and the time period. If the receiver of the gift is not set up as a beneficiary for the clients, you must first add the individual or charity to the list of beneficiaries on the *Getting Started* section – *Personal Information* category – *Client Information* page.

The *Split Gift* check box allows you to split a gift for tax purposes (not in cash flow). Selecting the *Max. Annual Gift Exclusion* check box ensures that the gift amount will be the maximum it can be each year. This amount increases with the plan's inflation rate in increments of \$1,000. Gift amounts that are larger than the annual exclusion amount will reduce the applicable exclusion amount.

If the scenario is marked as *Proposed* and the client doesn't have enough cash coming in for a large cash gift, the gift is treated as an expense and asset redemptions may result because of deficit coverage.

## Trusts

On the *Trusts* page, you can enter new inter vivos trusts that have not yet been established. For example, if the client will be transferring a life insurance policy to an ILIT in the current year, it would be entered on this page. In Level 1 Plans, the only inter vivos trusts that can be entered are new ILITs.

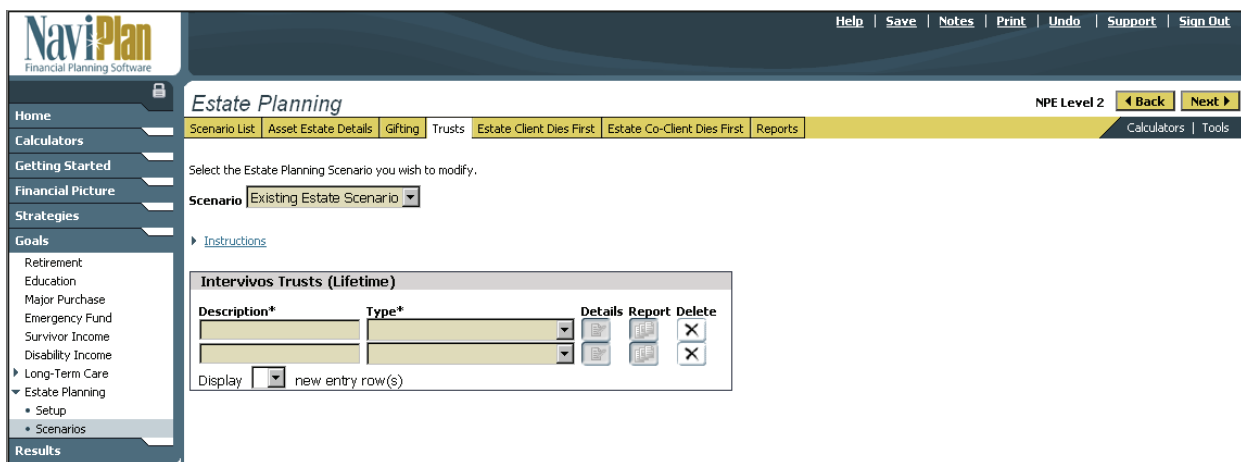


Figure 14: Goals section – Estate Planning – Scenarios category – Trusts page

## Creating marital and credit shelter trusts

When the gross estate of the first client to die is quite large, you can create marital and CST trusts that will help your clients' situation by using their estate tax applicable exclusion amount.

First we need to create a new scenario on the *Scenario List* page.

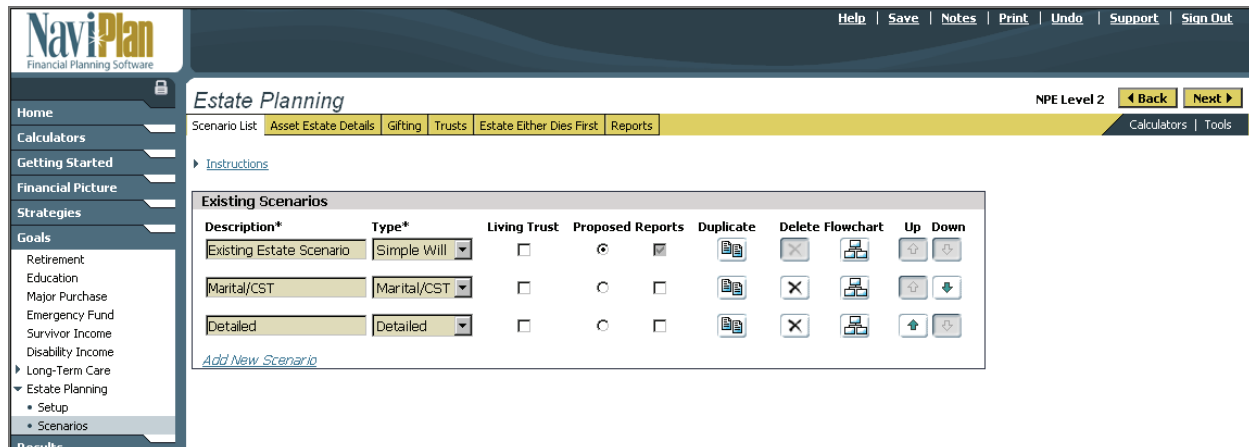


Figure 15: Goals section – Estate Planning – Scenarios category – Scenario List page

When you click the **Add New Scenario** link, a *Simple Will* scenario type is automatically created for you using default assumptions. If you change the scenario type to **Marital/CST**, the marital and CST trusts are automatically created for you.

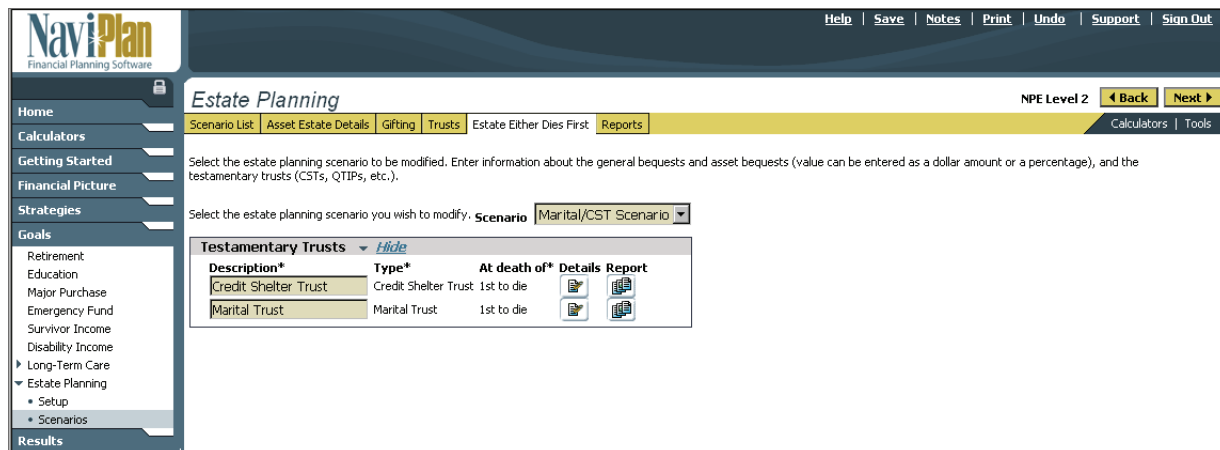


Figure 16: Goals section – Estate Planning – Scenarios category – Estate Either Dies First page

Having the marital and CST trusts created automatically can be useful if you have a paraprofessional entering data for you. If you want to

control the funding details, the *Detailed* scenario type will be more useful for you.

Another way to reduce estate-related expenses is to use a living trust. To add a living trust to a scenario, select the **Living Trust** check box on the *Scenario List* page.

To include the scenario in client reports, select the **Reports** check box on the *Scenario List* page.

# Estate either dies first

If *Mirror Wills/Either Dies First* is selected on the *Goals* section – *Estate Planning – Setup* category – *Assumptions* page, the *Estate Either Dies First* page appears.

If *Specify by Order of Death* is selected on the *Goals* section – *Estate Planning – Setup* category – *Assumptions* page, two pages, *Estate Client Dies First* and *Estate Co-Client Dies First*, appear instead.

Use these pages to add testamentary bequests and trusts to a *Detailed* scenario type. Testamentary trusts cannot be included for the *Simple Will* scenario type.

In Level 1 Plans, these pages don't exist. Testamentary trusts are entered on the *Trusts* page, and bequests cannot be entered in Level 1 Plans.

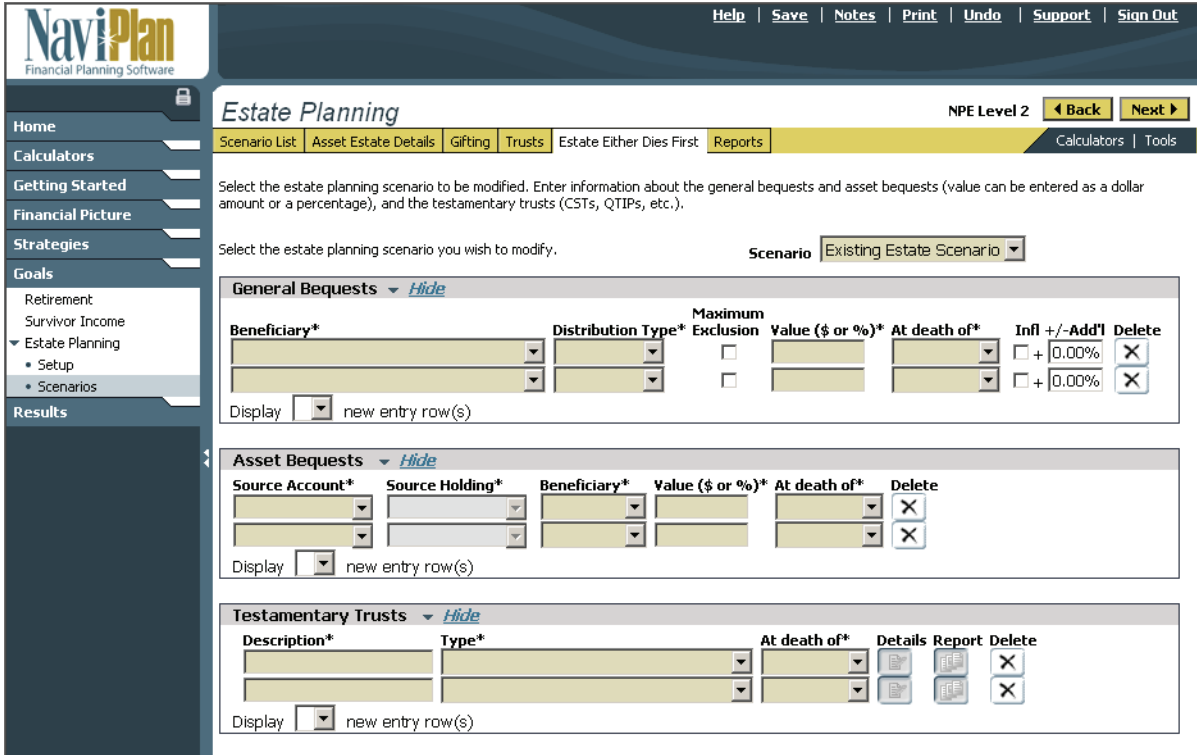


Figure 17: Goals section – Estate Planning – Scenarios category – Estate Either Dies First page

## Asset estate details

The *Asset Estate Details* page is available in Level 2 Plans only.

The screenshot shows the NaviPlan software interface. The top navigation bar includes 'Home', 'Calculators', 'Getting Started', 'Financial Picture', 'Strategies', 'Goals', and 'Results'. The 'Goals' section is expanded to show 'Estate Planning' and 'Scenarios'. The main content area is titled 'Estate Planning' and shows 'NPE Level 2'. The 'Scenario' section is selected, showing details for the 'Existing Estate Scenario'. Below this are two tables:

Non-Qualified Accounts and Lifestyle Assets						
Asset Name	Market Value	New Owner	Probate Fees	Admin Fees	Not Available For Estate Needs	
2nd Residence (i.e. vacation home)( Joint/Lifestyle )	\$600,000	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Residence (i.e. home)( Joint/Lifestyle )	\$1,400,000	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
500 Smith Street( Joint/Real Estate )	\$8,000,000	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Mary's Brokerage Account( Mary/Non-Qualified )	\$125,000	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Life Insurance Proceeds for Mary( Mary/Non-Qualified )	\$0	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
David's Brokerage Account( David/Non-Qualified )	\$100,000	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Joint NQ( Joint/Non-Qualified )	\$60,000	[Dropdown]	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	

Qualified Accounts and Annuity Holdings							
Asset Name	Market Value	Probate Fees	Admin Fees	Not Available For Estate Needs	Beneficiary Primary	Contingent	Multi-generational
Qualified Account( Mary/401(k) )	\$320,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Surviving Client [Dropdown]	Estate [Dropdown]	<input type="checkbox"/>
David's 401(k)( David/401(k) )	\$330,000	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Surviving Client [Dropdown]	Estate [Dropdown]	<input type="checkbox"/>

Figure 18: Goals section – Estate Planning – Scenarios category – Asset Estate Details page

Under *Scenario*, multiple scenarios are listed when more than one scenario has been created in this plan. It is important to select the correct scenario because any changes you make on this page affect the selected scenario.

You can retitle assets, modify applicable fees, and modify estate availability for assets on this page. Under *Non-Qualified Accounts and Lifestyle Assets*, you can change details for these assets. The current start-of-year market value of assets is shown.

If the scenario is marked as *Proposed* on the *Scenario List* page, the changes you make on the *Asset Estate Details* page for this scenario also apply to the *Financial Picture* section. For example, if you change the owner of an asset on the *Asset Estate Details* page, the asset owner also changes in the *Financial Picture* section.

For unmarried couples, changing the owner of a non-qualified asset to someone other than a spouse creates a gift that may be subject to gift taxes if the fair market value is above the annual gift exclusion amount. For nontraditional couples, retitling an asset will result in a gift if the amount is above the annual gift exclusion.

At death, NaviPlan pays estate fees, expenses, taxes, and liabilities from the owner's estate before funding testamentary trusts and bequests. If there is not enough cash flow in the year of death, some assets may be redeemed as per NaviPlan's estate deficit coverage strategy.

Select the *Not Available for Estate Needs* check box to indicate if an asset should be available for estate deficit coverage. Lifestyle and real estate assets are not available by default because they're not liquid assets.

Under *Qualified Accounts and Annuity Holdings*, you can select a primary and a contingent beneficiary. The *Contingent* field is only available if the surviving client is selected as the primary beneficiary. The *Multi-generational* check box is available when an heir or *Other* beneficiary type is selected as either the primary or contingent beneficiary.

## Creating a detailed scenario

If you've previously created a Marital/CST trust scenario, you can change its scenario type to *Detailed* and the marital and CST trusts are automatically included in the scenario. If you create a *Detailed* scenario type from scratch, you will have to add the testamentary marital and CST trusts yourself.

In a *Detailed* scenario type, you can add testamentary bequests in addition to testamentary trusts. You can designate general bequests of specific cash amounts, or a portion of the remainder of the client's estate (NaviPlan determines which assets to redeem, if necessary). Specific assets can be bequeathed to a beneficiary. NaviPlan may create new system-generated assets for the surviving client if assets are bequeathed to them.

Estate settlement (paying fees and taxes) takes precedence so assets may not be available for bequests or funding trusts if they are used up in estate deficit coverage.

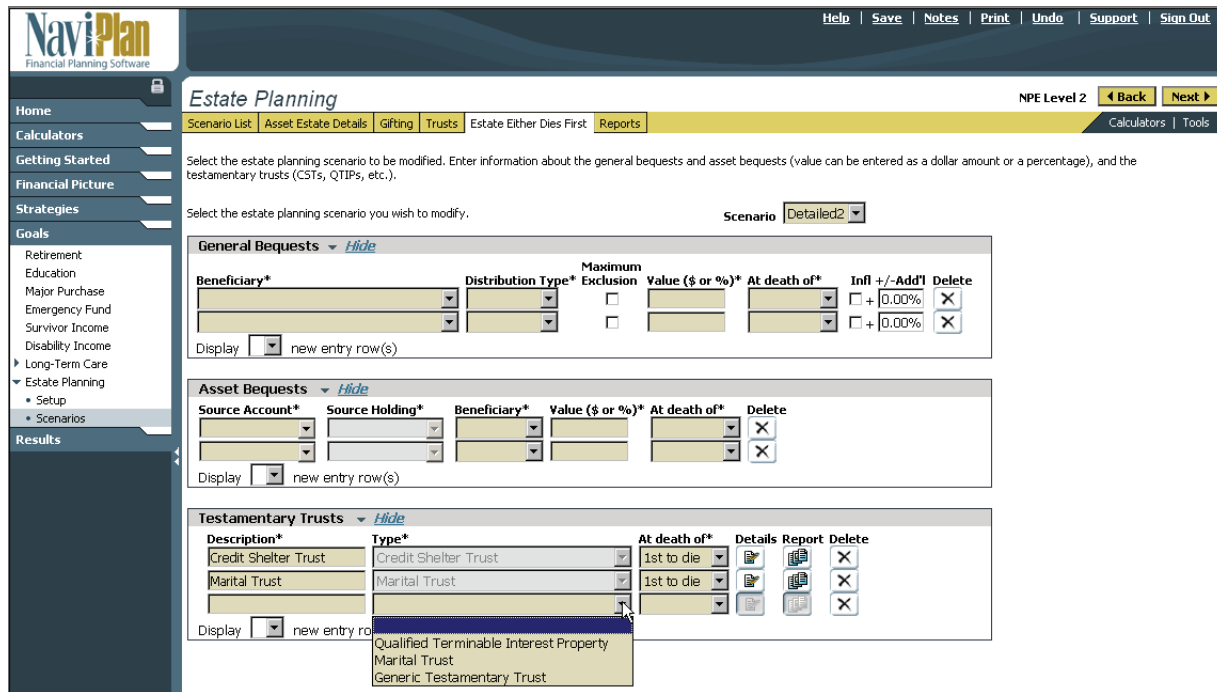


Figure 19: Goals section – Estate Planning – Scenarios category – Estate Either Dies First page

In a *Detailed* scenario type, you can add other testamentary types such as *Qualified Terminable Interest Property Trust* or *Generic Testamentary Trust*. If the *Living Trust* check box is selected for the *Detailed* scenario, all of the *Probate* fields automatically clear on the *Asset Estate Details* page. If you change the ownership of an asset on the *Asset Estate Details* page AND if the scenario has the *Proposed* option is selected on the *Scenario List* page, the ownership of the asset also changes in the *Financial Picture* section.

## Edit Trust dialog box

Clicking the *Details* button next to a trust on the *Estate Either Dies First* page opens the *Edit Trust* dialog box.

The screenshot shows the 'NaviPlan Extended - Edit Trust' dialog box. It has three tabs: 'Details', 'Beneficiaries', and 'Asset Transfers'. The 'Details' tab is selected. The dialog is divided into several sections:

- New CST:** A table with columns 'Description\*', 'At Death of\*', and 'Trust Tax Rate'. The first row contains 'Credit Shelter trust', '1st to die', and '40%'.
- Funding:** Contains a checkbox for 'Autofund' (unchecked), a radio button for 'Maximum Exclusion' (selected), and a text field for 'Value (\$)\*'.
- GSTT Exemption Allocation:** Contains a checked checkbox for 'Funding Amount' and a text field for 'Fixed Amount:'.
- Return Rates:** A table with columns 'Interest', 'Dividends', 'Capital Gains', 'Tax Free', and 'Deferred Growth'. Each column has a text field containing '0%'.

At the bottom right, there are 'OK' and 'Cancel' buttons.

Figure 20: Goals section – Estate Planning – Scenarios category – Estate Either Dies First page – Details button – Edit Trust dialog box

In the *Edit Trust* dialog box, you can rename the trust, indicate how to fund it, and change the tax rate.

Under *Funding*, if the *Autofund* check box is selected, NaviPlan automatically determines which assets will be used to fund the trust. Non-qualified investment assets owned by the decedent are used according to NaviPlan’s default deficit coverage strategy. Qualified assets are not used.

If the *Autofund* check box is cleared, an *Asset Transfers* tab appears where you can specify the assets to be used to fund the trust. You can specify that qualified and/or non-qualified assets are to be used.

Joint assets are not used to fund a testamentary trust in NaviPlan because they are assumed to be jointly owned with rights of survivorship.

If the *Maximum Exclusion* option is selected, NaviPlan will fund to the maximum exclusion available for the client. If this check box is not selected, you can manually specify a maximum value that can be funded.

The fields under *GSTT Exemption Allocation* are useful if the beneficiaries are generation-skipping (grandchildren or great-grandchildren).

Use the fields under *Return Rates* to define the returns on trust assets after the trust is funded. By default, the investment income is reinvested into the trust. If investment income is to be paid out to the

surviving client, enter the desired percentage in the *Surviving Client* field under *Income Beneficiaries* on the *Beneficiaries* tab.

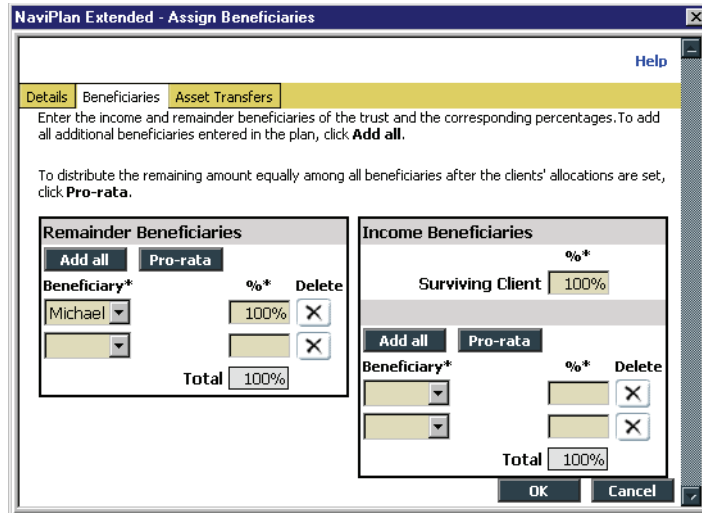


Figure 21: Goals section – Estate Planning – Scenarios category – Estate Either Dies First page – Details button – Edit Trust dialog box – Beneficiaries tab – Assign Beneficiaries dialog box

Clicking the *Beneficiaries* tab opens the *Assign Beneficiaries* dialog box. This dialog box varies depending on the trust entered. Generally, you set the *Remainder Beneficiaries* on the left (e.g., children), and *Income Beneficiaries* (survivor and/or other beneficiaries) on the right. In the example above, since we changed a *Marital/CST* scenario type to a *Detailed* scenario type, the beneficiary values for the credit shelter trust are automatically set, but you can edit them.

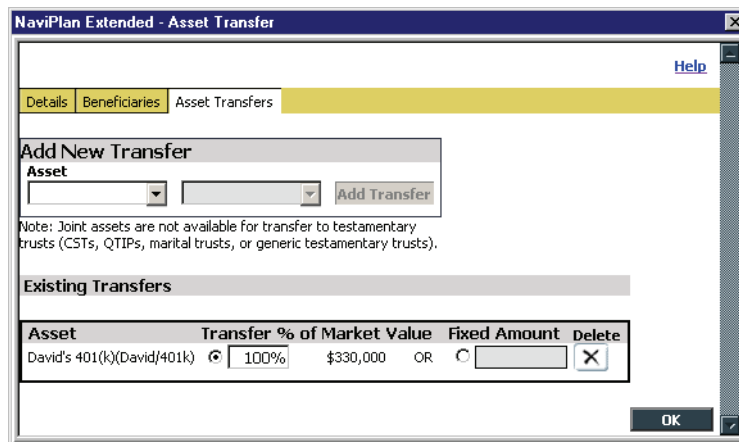


Figure 22: Goals section – Estate Planning – Scenarios category – Estate Either Dies First page – Details button – Edit Trust dialog box – Asset Transfers tab – Asset Transfer dialog box

The *Asset Transfers* tab is only available if the *Autofund* check box on the *Details* tab of the *Edit Trust* dialog box is cleared. Clicking the *Asset Transfers* tab opens the *Asset Transfer* dialog box. In this dialog box, you can transfer assets to trusts at the time of the trust donor's death. You can specify the percentage or the dollar amount to transfer. Multiple assets can be used. Keep in mind that the market value shown is the current value of the asset not the value of the asset at death. The applicable exclusion amount in the year of death changes. If you want other assets to show up in this list, retitle some of the assets on the *Asset Estate Details* page.

## Analyzing results with reports and graphs

On the *Goals* section – *Estate Planning* – *Scenarios* category – *Reports* page, you can generate reports and graphs that are specific to estate planning.

All of the *Single Trust* reports begin with some educational information about the trust and how the trust works.

**Single Trust**

**Intermediate and Train**

*Scenario: Detailed2 (2006)*

**Credit Shelter Trust**

The main purpose of a CST is to allow the first spouse that dies to use their remaining Applicable Credit by transferring money into a CST on first-to-die. This will reduce the amount of Estate Tax due on the death of the last-to-die spouse and therefore increase the amount payable to their heirs. Transferring money to a CST permits the heirs to receive the money tax-free from the CST; whereas, if the money were to remain with the last-to-die spouse, the money may be taxed with the last-to-die spouse's estate on death. If the remaining Applicable Credit is not used by the decedent, it does *not* pass on to the spouse. Also, CSTs allow the last-to-die spouse to receive income for the remainder of their life.

Figure 23: Single Trust report (Credit Shelter Trust introduction)  
(Goals section – Estate Planning – Scenarios category – Reports page)

Details of how the trust was set up are shown next.

**Details**

Credit Shelter Trust			
<b>Funding Date</b>	Dec 31 2056	<b>At Death of</b>	David
<b>Allocation for GSTT Exemption</b>	Equals trust funding amount	<b>Trust Tax Rate</b>	40.0%
Rates of Return			
<b>Interest</b>	0.0%	<b>Dividends</b>	0.0%
<b>Capital Gains</b>	0.0%	<b>Tax Free</b>	0.0%
<b>Deferred Growth</b>	0.0%	<b>Reinvestment Frequency</b>	Annual
Income Beneficiaries		Remainder Beneficiaries	
<b>Mary</b>	100%	<b>Michael (Heir)</b>	100%

Figure 24: Single Trust report (Credit Shelter Trust details)  
(Goals section – Estate Planning – Scenarios category – Reports page)

Funding assets and the amounts transferred are shown next.

Summary			
<b>Inclusion Ratio</b>	0.000 <sup>1</sup>	<b>Remainder to Heirs</b>	\$407,704 <sup>2</sup>
<p><sup>1</sup> In 2056, the GSTT inclusion ratio of 0.000 was calculated from a transfer of \$0 and a GSTT exemption allocation of \$1,000,000.</p> <p><sup>2</sup> In 2058, the remaining value of the trust's assets (\$407,704) were passed on to the specified heirs.</p>			
Funding			
Assets	Value Transferred (\$)	Value Transferred (%)	
David's 401(k)			
All Holdings	\$1,000,000	5.68%	
<b>Total funding for CST</b>	<b>\$1,000,000</b>	<b>100.00%</b>	
<p>For assets, the <b>Value Transferred (%)</b> column represents the percentage of each asset's total value, before any death expenses, that is transferred at the end of the death year. The Available Applicable Exclusion at David's death is \$1,000,000, 100% was used in funding the Credit Shelter Trust.</p>			

Figure 25: Single Trust report (summary and funding details)  
(Goals section – Estate Planning – Scenarios category – Reports page)

If the trust is underfunded, you can do either of the following:

- Transfer more assets
- Retitle assets so more are available

Cash flow and taxes paid by the trust reconciliation are shown next.

Cash Flow										
Year	Ages	Starting Trust Balance	Income Earned	Capital Gains from Sells	Deferred Growth	Income Distributed	Capital / Remainder Distributed	Taxes Paid by Trust	Ending Trust Balance	
2056	90/88	0	0	0	0	0	0	0	1,000,000	
2057	--/89	1,000,000	0	0	0	0	169,492	0	830,508	
2058	--/90	830,508	0	0	0	0	558,706	271,803	0	
<b>Totals</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>728,197</b>	<b>271,803</b>		

Taxes Paid by Trust Reconciliation	
Tax Type	Amount
Income tax on reinvested income	\$0
Estate Taxes payable by trust	\$0
GSTT on final distribution	\$0
IRD tax (net of deduction) on remainder distribution	\$271,803
<b>Total</b>	<b>\$271,803</b>

Figure 26: Single Trust report (Cash Flow and Taxes Paid by Trust Reconciliation tables)  
(Goals section – Estate Planning – Scenarios category – Reports page)

Estate planning reports reflect the deceased dates selected in the *Estate Planning Report Settings* dialog box.

The *Summary Asset Distribution* report shows how assets were used to settle the client's estate. Generally, most reports will show some assets are to be used for liquidity needs, transfer to survivor, and transfers to trusts.

Summary Asset Distribution (David)		
Intermediate and Train		
Scenario: Detailed2 (2006)		
	\$ Amount	% of Asset
<b>Liquidity Needs - settled with...</b>		
Cash Surplus	\$453,761	100.00%
Brampton Crest International Incorporated (David's Brokerage Account/Non-Qualified)	\$198,248	0.40%
<b>Total</b>	<b>\$652,009</b>	
<b>Transfer to Mary</b>		
2nd Residence (i.e. vacation home) (Joint/Lifestyle) <sup>1</sup>	\$823,626	100.00%
Residence (i.e. home) (Joint/Lifestyle) <sup>1</sup>	\$1,921,794	100.00%
500 Smith Street (Joint/Non-Qualified) <sup>1</sup>	\$29,563,803	100.00%
Cash (David's 401(k))	\$55,979	94.04%
eBay Incorporated (David's 401(k))	\$16,596,448	94.34%
<b>Total</b>	<b>\$48,961,649</b>	
<b>Transfer to Testamentary Trusts</b>		
Brampton Crest International Incorporated (David's Brokerage Account/Non-Qualified)	\$49,811,769	99.60%
David's ISO '06	\$2,532,687	100.00%
Cash (David's 401(k))	\$3,551	5.96%
eBay Incorporated (David's 401(k))	\$996,449	5.66%
<b>Total</b>	<b>\$53,344,456</b>	
<b>Total Distributions at David's Death</b>	<b>\$102,958,114</b>	

<sup>1</sup> Asset not available to cover estate needs upon David's death.

NOTE: Cash surpluses include \$470,000 in payouts from life insurance policies.

Figure 27: Summary Asset Distribution report (Goals section – Estate Planning – Scenarios category – Reports page – Summary Asset Distribution selection)

Flowchart reports generated from the *Goals section – Estate Planning Scenarios category – Scenario List* page are not interactive. However, the same report from the *Goals section – Estate Planning – Scenarios category – Reports* page, or the *Results section – Additional Reports – Estate Planning category – General* page is interactive unless you declined to accept the SVG (scalable vector graphics) Adobe© feature.

For example, if you wanted to see what was included in the gross estate, you could

- Generate the *Gross Estate and Liabilities* report
- OR
- Double-click the death node on the *Estate Planning Flowchart* report if it is interactive

## Exercises

The following exercises have been designed specifically for this module and assume that you are working with the original data in the *Core and Elective Base* plan. Before starting the exercises, duplicate the **Core and Elective Base** plan, rename the duplicate with a meaningful name (e.g., *Estate Objectives training*), and then use it to complete the exercises below.

To find the answers, see “Answers to estate objectives and testamentary trusts” on page 35.

### Exercise 1: Describe estate planning assumptions

1. When you enter life expectancies on the *Goals* section – *Estate Planning – Setup* category – *Assumptions* page, it will affect the clients’ entire plan. Is this statement true or false?
  - a) True
  - b) False
2. For now, David and Mary would like their estate planning analysis to assume that David dies **this year** and Mary dies **ten years later**. Ensure that this is established for estate planning purposes and that this scenario will be included in the reports.

**Hint:** Life expectancy is a key estate planning **assumption**.

3. What is the default value for **probate** and **administration** fees?
  - a) \$10,000 per client
  - b) 1% of gross estate
  - c) 10% of gross estate
  - d) \$0
4. Which of the following trusts should **not** be entered on the *Funded Trusts* page?
  - a) A CST that was funded at the death of the client’s ex-spouse and is producing income for the client.
  - b) An ILIT established in the past that owns an insurance policy on the life of the client.
  - c) A marital trust that will receive the client’s brokerage account upon the death of the client sometime in the future.
  - d) A grantor retained trust established in the past, which allows the client to enjoy the assets now and to transfer the remainder to the children in five years.

## Exercise 2: Incorporate current estate plan details

To find the answers, see “Answers to estate objectives and testamentary trusts” on page 35.

1. Over the years, David has gifted a total of \$100,000 to Michael. With growth, this amount would be equivalent to having approximately \$125,000 still in his estate. Ensure that these details are accurately reflected in the estate plan.

**Hint:** The gifts were not taxable gifts so this does not affect the fields under *Historical Data*.

2. Include the following miscellaneous estate planning details in the *Estate Planning – Setup* category.
  - a) The growth for gifts to all beneficiaries should assume an 8% **Growth Rate** and a 25% **Income Tax Rate**.
  - b) David and Mary expect burial costs for each of them to be approximately **\$15,000**, indexed to inflation.

## Exercise 3: Analyze a Simple Will scenario

Aside from the past gifts and the trust that is paying benefits to David, the Trains have not implemented any other strategies on their own. This exercise will allow you to analyze the effects of having no significant estate plan.

1. Generate an **Estate Planning Flowchart** report using the **Estate Planning Life Expectancy** for both David and Mary (as per their request). Use this report to answer the following questions.

**Hint:** You can generate this report from either the *Estate Planning – Scenarios* category – *Scenario List* page or the *Reports* page, or from the *Results* section – *Additional Reports – Estate Planning* category – *General* page.

2. What is the projected value of David’s **gross estate** at his death?
  - a) \$0–\$2,500,000
  - b) \$2,500,001–\$5,000,000
  - c) \$5,000,001–\$10,000,000
  - d) Over \$10,000,000

3. David's applicable exclusion was fully used. Is this statement true or false?

**Hint:** See the *David's Death* in <current year> node.

- a) True
  - b) False
4. How much tax is due at death?
- a) \$0–\$500,000
  - b) \$500,001–\$1,000,000
  - c) \$1,000,001–\$3,000,000
  - d) Over \$3,000,000

#### Exercise 4: Create a Marital/CST scenario

To find the answers, see "Answers to estate objectives and testamentary trusts" on page 35.

As a planner you realize that the Trains can reduce estate fees, probate, and estate taxes by implementing simple estate planning strategies into their plan. In the following exercise you will create credit shelter, marital, and living trusts in a new estate scenario.

1. Click the **Duplicate** button on the *Scenario List* page to create a new estate planning scenario. Select **Detailed** from the *Type* list. This will let you show the Trains the benefits of using a living trust, a marital trust, and a credit shelter trust.

Be sure to rename the scenario appropriately and ensure the **Reports** check box is selected.

**Hint:** Using the *Marital/CST* type can save time by automatically creating the trusts, but you will want detailed control.

2. In general, you can remove assets from the probate process on the *Asset Estate Details* page. What else can you do on this page?
  - a) Retitle assets within an estate planning scenario
  - b) Specify whether or not an asset should be used to settle the owner's estate
  - c) Model multi-generational transfers of qualified assets
  - d) All of the above

# HANDS-ON EXERCISES

- Using the detailed scenario you just created, create a **credit shelter trust** and a **marital trust**. Select **1st to Die** from the *At death of* list.

**Hint:** In question 1, if you selected *Marital/CST* from the list prior to selecting *Detailed*, you can skip question 3.

- Return rates and beneficiary information must be assigned for both the credit shelter trust and the marital trust. Enter these details as follows:

**Hint:** Ensure you have selected the appropriate scenario, and then click the **Details** button for each trust.

#### **Return rates**

Interest – **1.5%**  
Dividends – **1.5%**  
Capital gains – **1%**  
Deferred growth – **3%**

#### **Beneficiary information**

Remainder – **Michael 100%**  
Income – **Surviving client 100%**

- Through NaviPlan's *Autofund* feature, which assets are being used to fund the credit shelter trust?

**Hint:** Generate a **Single Trust** report.

- David and Mary's joint **Real Estate** asset
- David and Mary's joint **Annuity** asset
- David's **403(b)** asset
- David's **Brokerage** asset and David's **ISO'09**

6. Clear the **Autofund** check box for the CST, and then select the **Asset Transfers** check box for the marital trust to transfer assets manually to the trust. Use the following asset transfers:

CST: **\$2,000,000** of the Real Estate asset (see hint below)

Marital: **100%** of David's Brokerage account and **100%** of the Real Estate asset

**Hint:** You might need to retitle some assets to use them to help fund trusts. Remember the amount of the applicable exclusion limit for this year when entering the percentage or dollar amount of the asset to transfer.

7. Using single trust reports, what are the funding amounts for the trusts?

**a) Credit shelter trust**

- i. \$0–\$1,000,000
- ii. \$1,000,001–\$2,000,000
- iii. \$2,000,001–\$3,500,000
- iv. Over \$3,500,000

**b) Marital trust**

- i. \$0–\$1,000,000
- ii. \$1,000,001–\$2,000,000
- iii. \$2,000,001–\$3,500,000
- iv. Over \$3,500,000

**Hint:** Several reports will help you answer this question: the *Single Trust* report, the *Estate Planning Flowchart* report, and the *Trust Funding and Distribution Summary* report.

### Exercise 5: Model gifting strategies

To find the answers, see “Answers to estate objectives and testamentary trusts” on page 35.

You feel that making annual cash gifts, which will reduce income taxes now and potentially estate taxes later, may be an appropriate strategy for the Trains because cash surpluses are projected for them.

1. Duplicate the scenario from the previous exercise so that you can build on it and compare the scenario without gifting to one with gifting. Rename the new scenario to reflect that gifting is involved and make sure it is included in reporting.

2. Enter a gifting strategy that ensures Michael will receive the **Max. Annual Gift Exclusion** for the duration of Mary's life. To increase the benefits make this a **split gift**.

**Hint:** Use the keyword *death*.

3. What is the gift amount for the current year?

**Hint:** Look for a *Gift Summary* report.

- a) \$0–\$10,000
- b) \$10,001–\$15,000
- c) \$15,001–\$20,000
- d) Over \$20,000

### **Exercise 6: Analyze the results with reports and graphs**

1. Which of the three estate planning scenarios results in the highest *Net to Heirs* amount?

**Hint:** *Estate Planning Comparison* reports compare multiple scenarios within one report.

- a) Existing estate scenario
- b) Scenario which includes marital, CST, and living trusts
- c) Scenario which includes marital, CST, and living trusts, plus gifting
- d) All three scenarios result in the same *Net to Heirs* amount

### **Exercise 7: Implement a proposed estate plan**

To find the answers, see “Answers to estate objectives and testamentary trusts” on page 35.

1. Ensure that the scenario with the highest *Net to Heirs* amount is marked as the **Proposed** scenario.

**Hint:** You can do this on the same page where you manage the scenarios.

2. In general, marking a scenario as *Proposed* will have what effect on a plan?
  - a) Retitles assets in the *Financial Picture* section if the scenario retitles assets
  - b) Creates cash expenses if gifting strategies are included in the scenario
  - c) Creates tax deductions if gifting to a charity is included in the scenario
  - d) All of the above

## Conclusion

This module has enabled you to

- Describe estate planning assumptions
- Incorporate current estate plan details
- Analyze a *Simple Will* scenario
- Model gifting strategies
- Create a *Marital/CST* scenario
- Analyze the results with reports and graphs
- Implement a proposed estate plan

## Answers to estate objectives and testamentary trusts

### Exercise 1: Describe estate planning assumptions

1. b) False. Entering life expectancies on the *Goals* section – *Estate Planning* – *Setup* category – *Assumptions* page only affects estate planning in the plan.
3. b) 1% of gross estate is the default value for probate and administration fees.
4. c) A marital trust that will receive the client's brokerage account upon the death of the client sometime in the future should not be entered on the *Funded Trusts* page.

### Exercise 3: Analyze a Simple Will scenario

2. b) The projected value of David's gross estate at his death was between \$2,500,001–\$5,000,000.
3. False. David's applicable exclusion was not fully used.
4. a) At death, an amount between \$0–\$500,000 is due in taxes.

### Exercise 4: Create a Marital/CST scenario

2. d) All of the above. On the *Asset Estate Details* page, besides removing assets from the probate process, you can also retitle assets within an estate planning scenario, specify whether or not an asset should be used to settle the owner's estate, and model multi-generational transfers of qualified assets.
5. d) David's Brokerage asset and David's ISO'09 asset are being used to fund the credit shelter trust through NaviPlan's autofund feature.

7. a) ii. \$1,000,001–\$2,000,000 is the funding amount for the credit shelter trust.  
b) i. \$0–\$1,000,000 is the funding amount for the marital trust.

### **Exercise 5: Model gifting strategies**

3. d) Over \$20,000 is the gift amount for the current year.

### **Exercise 6: Analyze the results with reports and graphs**

1. c) The scenario which includes marital, CST, and living trusts, plus gifting results in the highest *Net to Heirs* amount.

### **Exercise 7: Implement a proposed estate plan**

2. d) All of the above. Marking a scenario as *Proposed* will have the following effects on a plan:
  - Retitles assets in the *Financial Picture* section if the scenario retitles assets
  - Creates cash expenses if gifting strategies are included in the scenario
  - Creates tax deductions if gifting to a charity is included in the scenario

# Index

## A

Asset estate details, 20  
 Assets  
     bequests, 19  
     retitle, 20  
 Autofunding trusts, 23

## B

Beneficiary, primary and contingent, 21  
 Bequests, 19

## C

Client file, 3

## D

Death order, 8  
 Deficit coverage, 16, 21, 23  
 Detailed scenario, 21

## E

Economic Growth and Tax Relief Reconciliation  
     Act of 2001, 3  
 EGTRRA, 3  
 Estate  
     deficit coverage, 16, 21, 23  
     expenses, 12  
 Estate Planning Flowchart report, 28  
 Estate planning, assumptions, 3  
 Existing estate scenario type, 13

## F

Fees  
     modify, 20  
     probate and administration, 8  
 Funded trusts, 9

## G

Gifting growth and history, 11  
 Gifting, cash and assets, 15  
 Gross Estate and Liabilities report, 28  
 GSTT exemption, 23

## H

Help  
     accessing, 2  
     link, 2  
 Historical gifting information, 11

## L

Learning tools, 3  
 Life expectancy scenarios, 7  
 Living trust, 18

## M

Marital/CST trust, 17  
 Modify estate availability for assets, 20

## N

New trusts, 16

## P

Prerequisites, 1  
 Probate and administration fees, 8

## R

Reports  
     Estate Planning Flowchart, 28  
     Gross Estate and Liabilities, 28  
     Single Trust, 26  
     Summary Asset Distribution, 28  
 Resources, additional, 2  
 Retitle assets, 20

## S

Scenarios  
     assumptions, 7  
     create, name, manage, duplicate, 13  
     detailed scenario type, 21  
     existing estate scenario type, 13  
     marital/CST scenario type, 17  
 Single Trust report, 26  
 Summary Asset Distribution report, 28

**T**

Tax options, 3

Testamentary trusts, 19

Trusts

    autofunding, 23

    funded, 9

    living, 18

    marital/CST, 17

    new, 16

    testamentary, 19

**W**

Web site, accessing, 2