NAPIER'S NOTES:

A Couple Minutes Is All It Takes.

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THE SMARTEST FOLKS

If A is a success in life, then A equals x plus y plus z. Work is x; y is play; and z is keeping your mouth shut.
— Albert Einstein

Financial advisors report a common question. They are often asked, "What are the smart clients doing now?" In the world of estate planning, that question could elicit a few answers. The smartest folks are doing some or all of the following:

1. Reviewing the titles of their assets and their estate plans, either periodically or when life events (births, change in health, marriages, etc.) occur. Outdated retirement account beneficiary designations, accounts held in joint tenancy, or wills and trusts with stale directives can be problematic in an estate plan. Examining how every asset is owned - preventive maintenance for any estate plan – means the plan should accomplish what those clients hope it will.

2. Paying attention to the income tax basis of their assets. If a married couple has assets that have appreciated or depreciated in value, it may make sense to have the appreciated assets owned by the spouse with the shorter life expectancy. (Gentlemen, this observation typically is a way of referring to husbands.) Why? Because the tax basis of assets can "step up" at death, meaning that assets could then be sold without incurring capital gains tax.

This point is also of importance to those clients who have transferred low tax basis assets to irrevocable grantor trusts. Assets held in irrevocable trusts do not typically step up or down at the death of the irrevocable trust's grantor.

3. Reviewing their life insurance and liability insurance. Rarely will financial advisors allow an investment to be ignored for years after its purchase. Although life insurance is an investment of sorts, it is quite often ignored after its purchase. The cost of ignoring existing life insurance contracts can be substantial. Similarly, personal liability insurance is often overlooked, but it is critically important if lightening strikes (figuratively or literally).

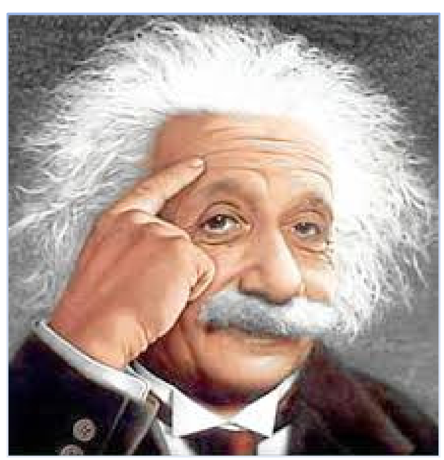
4. Evaluating their state of domicile. Many of our clients are current or former Illinois residents. The IRS reports that Illinois lost about $2 billion in income in the year most recently reported. That equates to about 10,000 Illinoisans each earning $200,000 annually leaving Illinois. Only New York and New Jersey lost more income from their residents. (Florida added the equivalent income lost by Illinois and New York combined.)

A recent Gallop poll suggests that 50% of Illinoisans would leave if they could. Illinois estate and income taxes –to say nothing of winters – are material factors in this migration. Clients are wise to focus on their personal facts and circumstances as viewed by the Illinois taxing authorities; an individual's specific facts and circumstances may or may not make them residents of Illinois.

5. Planning for income tax deductions. With more politicians suggesting greater limits on income tax deductions, these deductions seem vulnerable. Clients that are charitably inclined are considering "front-loading" their future charitable deductions by currently creating and funding their own donor advised funds or private charitable foundations. After all, it is more fun <u>and</u> tax efficient to make charitable gifts now rather than having the next generation make those gifts pursuant to the terms of an estate plan.

6. Lastly, many clients are transferring assets to loved ones so the future appreciation of investments is outside the taxable estate of the donor. This is accomplished through simple gifting of those assets or by involving various irrevocable trusts that avoid future estate taxation and protect loved ones from those that may do them harm.

In short, rather than reacting, the smartest folks are in action.



Everything should be made as simple as possible, but not simpler.