Estate Planning Analysis for Mr. and Mrs. Client

Prepared by:
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LINCOLN BENEFIT LIFE COMPANY

A Member of Allstate Financial Group

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Sample Pages:

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The following table summarizes your clients' **current** estate tax position.

	Without Planning	With Planning
Assets at Second Death	$2,721,750	$2,721,750
Liabilities and Expenses	131,088	34,250
Estate Taxes	725,331	385,838
Subtotal	856,419	420,088
Income Tax on IRD	88,728	94,500
Total Taxes, Expenses and Probate	945,147	514,588
Net Assets Transferred	$1,776,603	$2,207,162
Savings From Planning		**$430,559**

You will note that the techniques described above resulted in overall savings of $1,393,815 on a projected basis and $430,559 on a current basis.

PLANNING SUGGESTIONS

We also have several ideas or suggestions which your clients may wish to consider. These are not incorporated into the Estate Tax Analysis, but would include the following:

- **Planning for Taxes and Expenses.** Mr. and Mrs. Client currently have $600,000 of life insurance. Even with planning, the estimated cash requirements for taxes, liabilities and expenses of both estates will approach $540,000 on a current basis and $1,170,000 on a projected basis including the use of a gift-giving program. As Mr. and Mrs. Client consider their overall estate planning strategy, they should evaluate their overall financial position. For example, they may decide that they want to transfer 100% of their estate to their children. In this case, life insurance could be used to "replace" the wealth that is lost to estate taxes. A survivorship policy insuring both spouses is often the policy of choice for pre-funding the estate tax liability. The advantage of a survivorship policy is that the death benefit is paid at the death of the last to die of both spouses when the estate
spouses on a single policy, premiums are usually lower th
one life. Alternatively, they may decide to liquidate some
"manage" the size of their taxable estate through lifetime
charitable giving strategies to reduce or eliminate their est

In order to immediately exclude the death benefits from th
irrevocable life insurance trusts should be considered if an
purchased. The irrevocable life insurance trusts can then b

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February 25, 2002

Mr. Broker
111 Main Street
Northbrook, IL 60062

VIA AIRBORNE EXPRESS

RE: Client Estate Planning Matter

Dear Mr. Broker:

We appreciate the opportunity to assist you with this case. Enclosed is an Estate Tax Analysis for Tom and Tracy Client. The analysis illustrates your clients' projected estate tax liability in ten years, under their present estate plan and after utilizing some basic estate planning techniques. We have also incorporated the use of a gift-giving program. The latter part of the analysis similarly illustrates your clients' current estate tax liability.

Tax legislation was enacted last year that significantly impacts the estate and gift tax system over the next ten years. Enclosed is our summary of the important provisions of the legislation. In a nutshell, the estate tax is gradually reduced between 2002 and 2009, is totally repealed in 2010, and then springs back into existence in 2011 under the rules effective in 2001. Because most of the tax relief is back-end loaded (2009-2010) and ultimately sunsets in 2011, we would caution against relying for planning purposes on the full implementation of the tax relief scheduled to occur towards the end of this decade.

ASSUMPTIONS

The main assumptions utilized in the analysis are as follows:

- Various growth rates for the values of assets and other amounts are assumed throughout the analysis. Please refer to the analysis for the growth rate assumptions used.

- Mr. Client will continue to work for ten years and his current salary will increase by 3% per year. Your clients will spend 75% of his annual salary (including retirement plan contributions), resulting in net savings of 25% per year. These savings will grow in an account earning 5% per year.

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Detailed Written Analysis

Detailed Ledger Pages

Proposed Expenses and Gifts

Your Proposed Plan

This analysis of the proposed plans of Tom and Tracy assumes that the following plans for expenses and gifts replace your current plans. Expenses are referring to expenses that are consumed—that is, they are not used to purchase other assets and are in addition to expenditures shown elsewhere in this proposed plan.

Changes to Existing Life Insurance Policies

Life Policy
Face Amount: $500,000 (Policy on Tom)
Owner: Tom
Annual Premium: $0
Transfer Policy to Irrevocable Life Ins Trust (ILIT)

Life Policy
Face Amount: $100,000 (Policy on Tracy)
Owner: Tracy
Annual Premium: $0
Transfer Policy to Irrevocable Life Ins Trust (ILIT)

Gifts

Gifts (Exclusion Only)
Initial Gift: $33,000 Starting in year 1 for 10 years Gifts occur at beginning of year
Donor: Tom Growth Rate after Transfer: 5.000%
Exclusion gift is not indexed for inflation

Gifts (Exclusion Only)
Initial Gift: $33,000 Starting in year 1 for 10 years Gifts occur at beginning of year
Donor: Tracy Growth Rate after Transfer: 5.000%
Exclusion gift is not indexed for inflation

Effects of Additional Planning

Projected Growth of Assets

This analysis assumes that Tom dies first in 10 years and Tracy dies 0 years later. The growth of your assets until the first death considers your income as well as the portion of existing assets used to provide the spending patterns detailed in the assumptions.

End of Year	Age	Beginning of Year Asset Values	Plus Additions Appreciation Earnings	Less Withdrawals Liquidations Distributions	End of Year Asset Values	Tom's Assets	Tracy's Assets
					Values Today	*$1,325,000*	*$825,000*
1	56/55	$2,150,000	$150,630	$41,000	$2,259,630	$1,412,565	$847,065
2	57/56	2,259,630	159,602	40,250	2,378,982	1,508,266	870,716
3	58/57	2,378,982	169,430	39,478	2,508,934	1,612,870	896,065
4	59/58	2,508,934	180,196	38,682			
5	60/59	2,650,449	191,988	37,862			
6	61/60	2,804,575	204,903	37,018			
7	62/61	2,972,460	219,046	36,149			
8	63/62	3,155,357	234,533	35,253			
9	64/63	3,354,636	251,490	34,331			
10	65/64	3,571,796	270,058	33,381			

Values at Tom's death after 10 years

Combined Estate Total

Assumptions

Your Current Plan

Assets and assumptions for an analysis of the estate of
Tom Client, age 55 and **Tracy Client,** age 54
State Inheritance Tax based on Illinois

This analysis assumes that Tom is the first to die in 10 years and Tracy dies 0 years later.

Income Tax Rates
Pre-retirement Income Tax Rate: 0.000% Post-retirement Income Tax Rate: 0.000%
Pre-retirement Capital Gains Tax Rate: 0.000% Post-retirement Capital Gains Tax Rate: 0.000%
Post-retirement rates start in year 11

Income Tax Rate for Income in Respect of a Decedent: 31.000%
Inflation Rate for Federal Indexed Values: 3.000%

Assets

Cash Account (Checking, CDs, Cash)
Initial Value: $0 Owner: Joint
Interest Rate: 5.000% Ordinary Income

Residence (Residence)
Initial Value: $350,000 Owner: Joint
Basis: $0 Appreciation Rate: 3.000% Tax Deferred Capital Gains

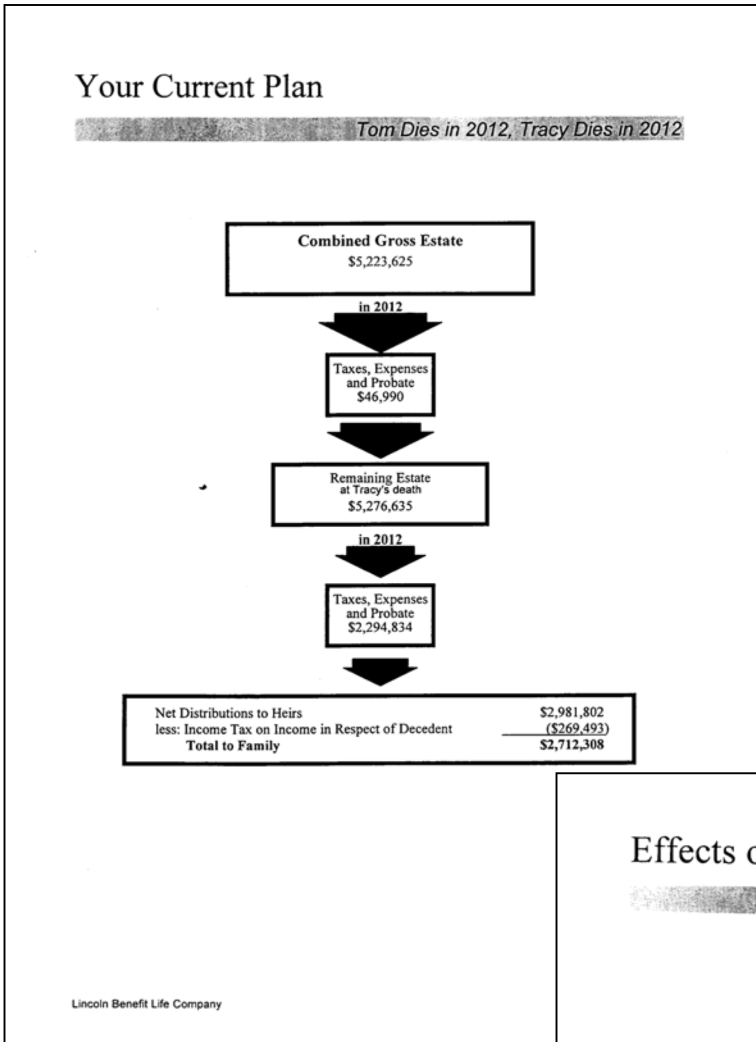
Second Residence (Property)
Initial Value: $150,000 Owner: Joint
Basis: $0 Appreciation Rate: 3.000% Tax Deferred Capital Gains

Securities (Mutual Fund)
Initial Value: $1,000,000 Owner: Joint
Basis: $0 Appreciation Rate: 7.000% Tax Deferred Capital Gains

Personal Property (Property)
Initial Value: $50,000 Owner: Joint
Basis: $0 Appreciation Rate: 0.000% Tax Deferred Capital Gains

Cash (Checking, CDs, Cash)
Initial Value: $100,000 Owner: Joint
Interest Rate: 3.000% Ordinary Income

Flowcharts


Your Current Plan
Tom Dies in 2012, Tracy Dies in 2012
Combined Gross Estate
$5,223,625
in 2012
Taxes, Expenses and Probate
$46,990
Remaining Estate at Tracy's death
$5,276,635
in 2012
Taxes, Expenses and Probate
$2,294,834
Net Distributions to Heirs $2,981,802
less: Income Tax on Income in Respect of Decedent ($269,493)
Total to Family $2,712,308
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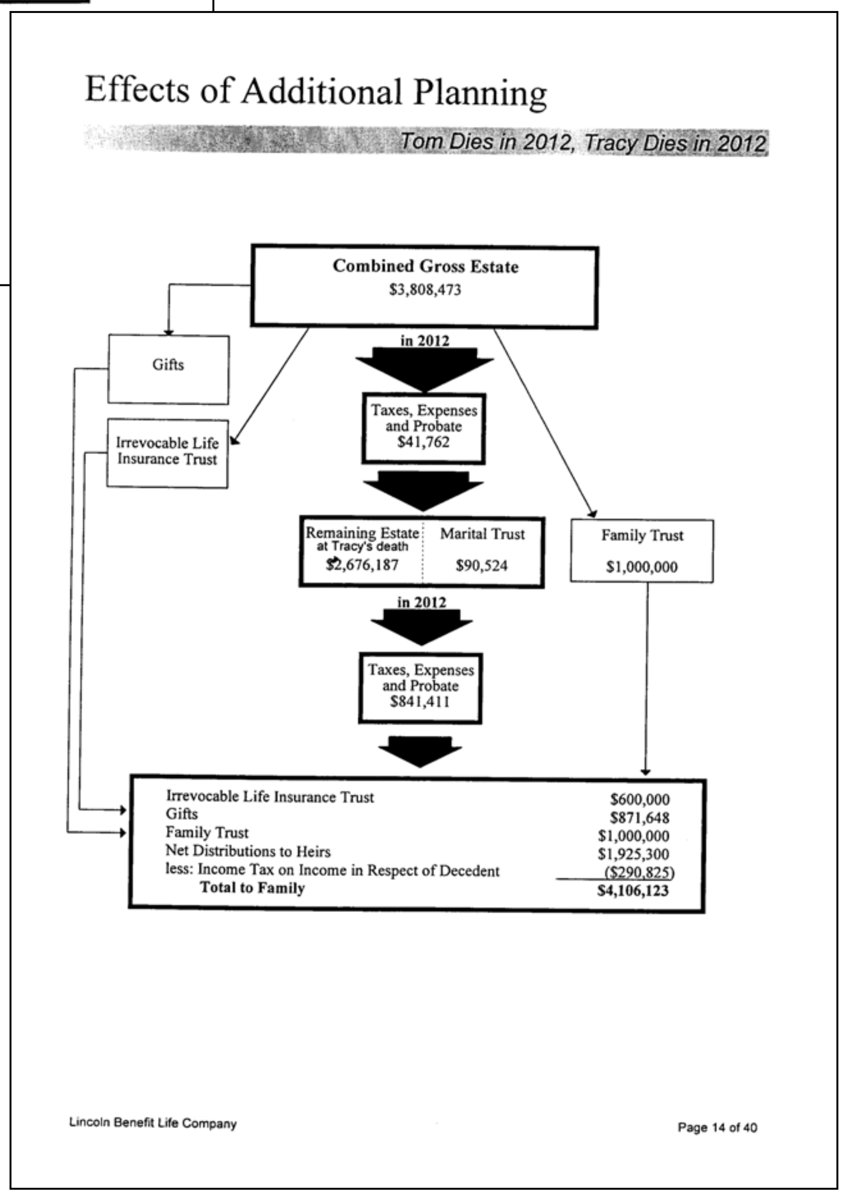
Effects of Additional Planning
Tom Dies in 2012, Tracy Dies in 2012
Combined Gross Estate
$3,808,473
Gifts
Irrevocable Life Insurance Trust
in 2012
Taxes, Expenses and Probate
$41,762
Remaining Estate at Tracy's death
$2,676,187
Marital Trust
$90,524
Family Trust
$1,000,000
in 2012
Taxes, Expenses and Probate
$841,411
Irrevocable Life Insurance Trust $600,000
Gifts $871,648
Family Trust $1,000,000
Net Distributions to Heirs $1,925,300
less: Income Tax on Income in Respect of Decedent ($290,825)
Total to Family $4,106,123
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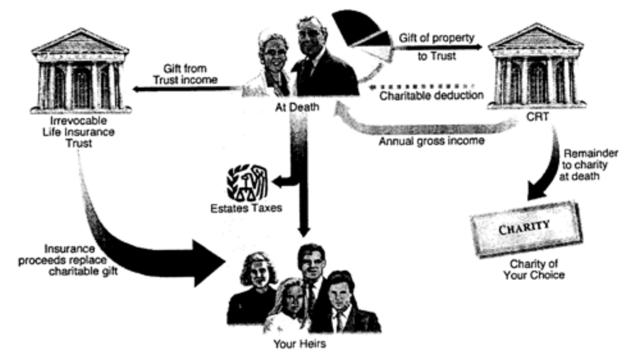
Concept Pages

Charitable Remainder Trust

Remove Assets from Estate But Keep Income



CRTs can remove assets from your estate, yet allow you to keep an income. Combined with an ILIT or Wealth Replacement Trust, your heirs benefit as well as the charity.

A CRT is an irrevocable trust that benefits you and a charity. The trust is funded by a gift of property. In many cases, additional tax savings can be achieved by using highly appreciated assets. While you the grantor (or any other named beneficiary) are alive, you receive an income interest from the trust. At your death, or at the end of the trust term (not to exceed 20 years), the remaining values in the trust go to a charity. The IRS provides tables to determine the value of the remainder interest that is available as a charitable deduction for you. The deduction may be taken over several years but must follow income tax rules.

A CRT can be an annuity trust or a unitrust. The annuity trust has a fixed income paid at least annually. The unitrust must be a specific percentage of the fair market value and paid at least annually. The fair market value must be determined annually. If the unitrust earns more than the percentage to be paid, then the value of the unitrust increases and future income payments could increase. Only the value of the remainder interest (full fair market value less the value of the income interest) is a charitable deduction from ordinary income.

You can use some of the trust income to make gifts to an Irrevocable Life Insurance Trust (ILIT). Life insurance proceeds for policies owned by an ILIT are estate and income tax free. This trust can provide life insurance for your heirs to help replace the assets going to charity at your death. The gifts may reduce your net estate, thereby reducing estate taxes. Your heirs receive your net estate after estate taxes and expenses, plus life insurance proceeds from the ILIT. (Estate Taxes are repealed for 2010.)

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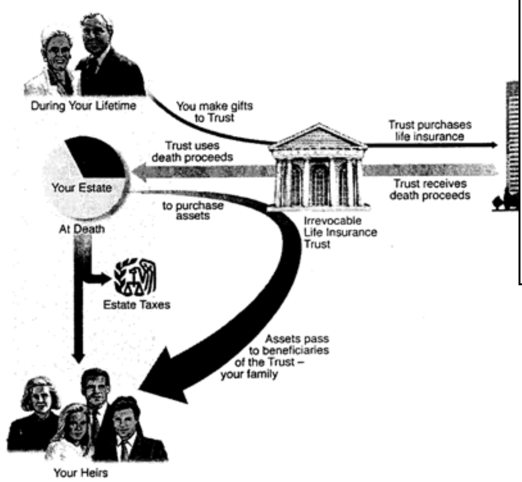
How a Life Insurance Trust Works

Using an Irrevocable Life Insur



An Irrevocable Life Insurance Trust (ILIT) can be designed for many special purposes.

Although there are numerous ways to create and fund these trusts, usually you make annual gifts to the trust. Based upon current withdrawal rights given to beneficiaries, these gifts are designed to qualify for the gift tax annual exclusion. The trust purchases life insurance on your life using the gifts to pay the premiums. The gifts will help to reduce your taxable estate.

At your death, the life insurance proceeds are paid to the trust as beneficiary. The irrevocable life insurance trust generally receives the policy proceeds free of income taxes (see IRC 101(a)), and with proper planning, the proceeds may be excluded from your estate for estate tax purposes. The trust may use the proceeds to purchase assets from your estate, or to make loans to your estate (provided that there is no obligation to make such loans). The executor uses this cash to help pay estate taxes and expenses. The assets purchased by the trust may then be distributed to the trust beneficiaries—your chosen heirs, or the trust may continue to hold the assets for the benefit of the beneficiaries as provided in the trust agreement.

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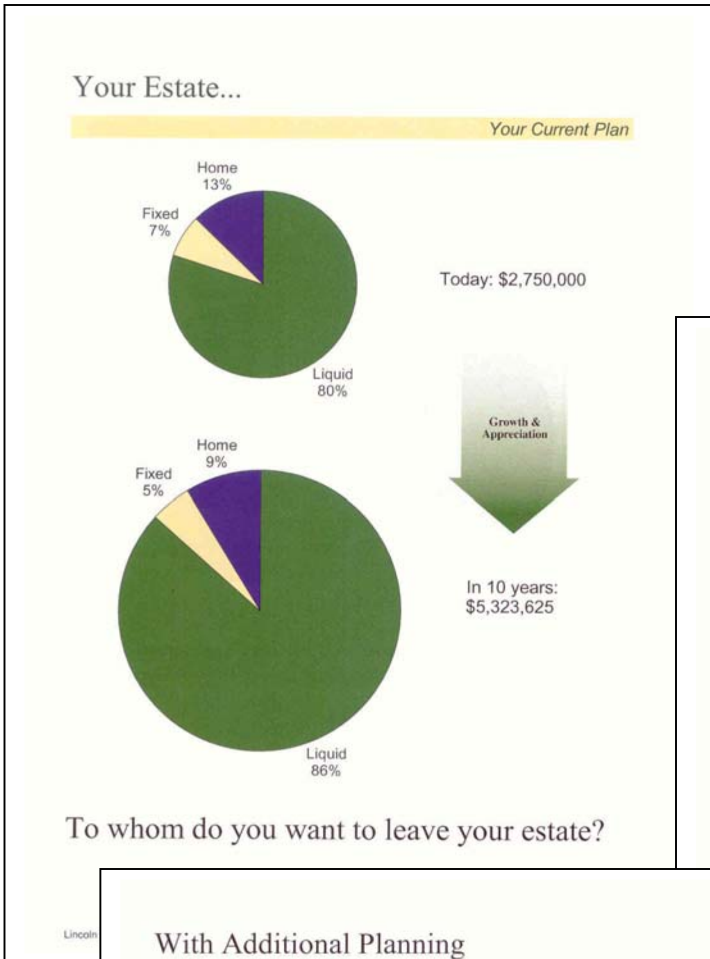

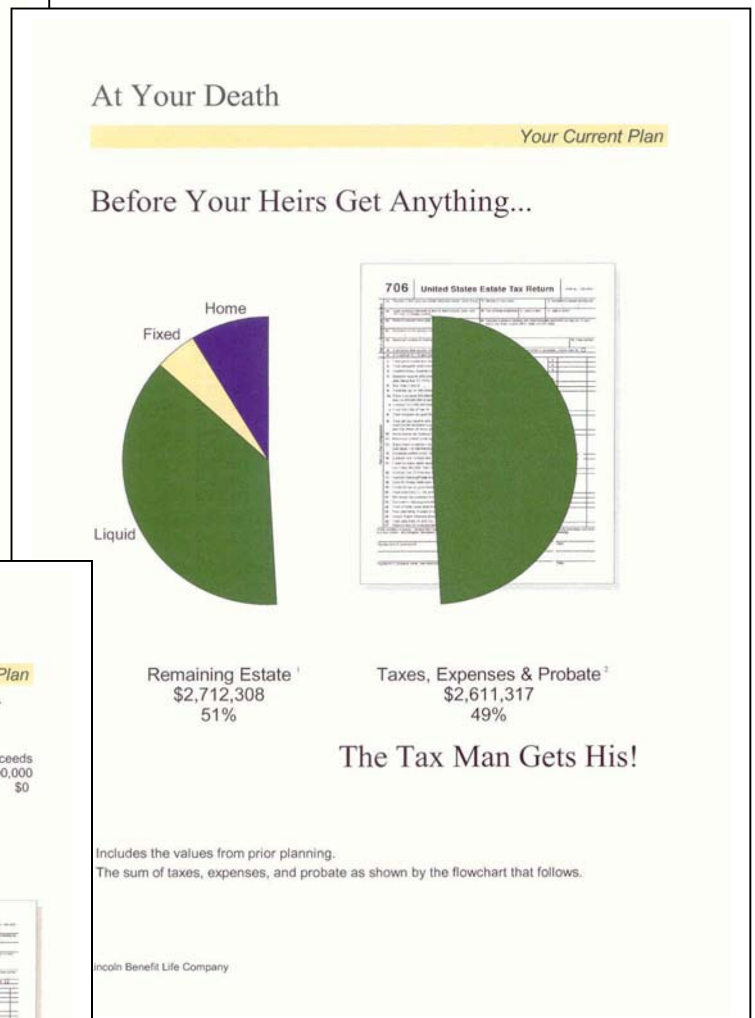

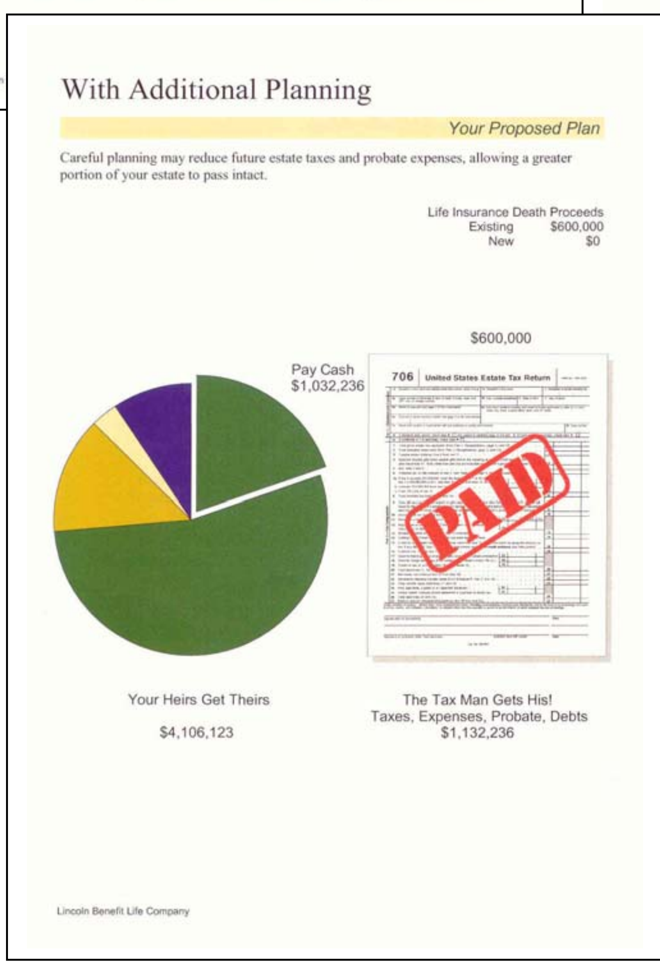

Graphics and Numbers