



THE USAA
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FOUNDATION®

Good Information for Good Decisions.®

FINANCIAL PLANNING

ESTATE PLANNING



OUR MISSION

The mission of The USAA Educational Foundation is to help consumers make informed decisions by providing information on financial management, safety concerns and significant life events.



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2 THE IMPORTANCE OF PLANNING

**DEPENDING UPON
THE APPLICABLE
LAWS OF YOUR
STATE, YOUR
ESTATE MAY BE
SUBJECT TO STATE
TAXES IN ADDITION
TO A FEDERAL
ESTATE TAX.**

Most individuals work diligently accumulating assets for their family's welfare. But not planning how to preserve those assets can be costly.

If your assets are sizeable or modest, you can choose how to leave your property and how to minimize estate tax or, in some states, inheritance tax. These goals, along with providing for the care and guardianship of your minor children, are also the primary objectives of estate planning. Careful estate planning can help ensure that your property will go to those you choose in an orderly fashion and that your children can be cared for by those whom you trust.

This publication will help you understand your choices for developing an estate plan to help manage your assets. It will guide you through techniques for providing for your heirs, minimizing taxes and easing the administrative burden on your survivors. You will become familiar with the documents that are essential for a comprehensive estate plan: a valid and current will, a durable power of attorney, a living will (sometimes known as a directive to physicians), durable health care power of attorney and a letter of instructions. You will also find information on estate planning tools such as trusts and life insurance. Once you understand the basics, we encourage you to seek professional advice from financial experts and, because this is a complex area of the law, legal experts who specialize in estate planning. Depending upon the applicable laws of your state, your estate may be subject to state taxes in addition to a federal estate tax.

For tax purposes, your “estate” generally includes the value of all your property in which you had an interest at the time of your death minus any debts or obligations you owe. United States citizens may be subject to federal estate tax, which is a tax on the transfer of your property at your death. The tax is assessed against the entire estate (which generally includes, among other things, life insurance death benefits if you retain “incidents of ownership”) minus certain exclusions and deductions. The estate tax is generally paid from the estate’s assets.

State, rather than federal law usually governs the actual transfer of property to heirs. Verify applicable state laws for additional estate, inheritance or death taxes that may be imposed on your property. Research the state laws where you have property located, as well as where you maintain your legal residence. Generally, only after the estate has paid all debts and taxes can the property be distributed.

The amount of federal estate taxes incurred by your estate upon your death depends on the size of your estate, the year in which you die and the individual who inherits your estate. The Unified Estate and Gift tax applicable exclusion amount allows each individual to give assets away, in specified amounts tax-free, during their lifetime and/or at death. The Economic Growth and Tax Relief Reconciliation Act of 2001 raises the estate tax applicable exclusion amount from \$2.0 million for 2007 and 2008 to \$3.5 million for 2009. The gift tax applicable exclusion amount for 2007 is \$1.0 million. Gifts made to tax-exempt charitable organizations are also free from federal estate taxes.

You may gift an unlimited amount of property to your spouse (as long as he is a U.S. citizen) without incurring gift taxes. Additionally, you may leave your entire estate to your spouse without being subject to estate tax. This provision is referred to as the marital deduction. However, it may not be prudent to transfer your entire estate to your spouse if your estate is valued at more than the current maximum allowable exclusion. By so doing, you may create a substantial tax burden on the estate of your spouse. It may be wiser to create a trust for your surviving spouse in order to avoid significant taxation upon your spouse’s death. In addition, if your spouse is not a U.S. citizen, a different and rather complex set of rules applies to property transfer. It is important to consult a professional in this area of the law — especially if you have an estate valued at more than the current maximum exclusion amount.

THE MAJORITY OF ESTATES WILL PASS TO HEIRS FREE OF FEDERAL ESTATE TAXES. THIS MEANS THAT THE PRIMARY FOCUS OF ESTATE PLANNING FOR MOST INDIVIDUALS WILL BE HOW TO LEAVE PERSONAL PROPERTY AS YOU DESIRE UNDER THE GOVERNING STATE LAWS.

4 ESSENTIAL DOCUMENTS

Wills

A **will** is a document that specifies who gets your property when you die. It is generally the best way to name a guardian for your minor children and to name an executor for your estate. The **executor** will handle your affairs when the time comes to probate the will.

A will is such an important document that it is critical to get professional help to prepare one. A poorly written will that confuses your heirs can be far more costly to correct than the fees an attorney will charge to prepare a will.

If you have minor children, a will is necessary for you to name a guardian who can provide for their care. You should consider naming a successor in the event that the guardian you choose is unable to take on the responsibility. Your children should also feel comfortable with the choice. To help financially with the children's care, you may wish to leave assets which the guardian can access. Gifts for minors may be left in the care of a legal guardian and/or in a trust.

Also, consider who you would choose to be executor of your estate. The executor must use competent judgment if your estate is to be distributed in the manner you desire. For example, timing the sale of assets can make a considerable difference in the value of your estate. The estate fees paid to the executor are often established by state law. If your estate is large and complex, naming co-executors might be preferable, such as an adult relative, a trusted friend or a financial institution.

A will is also your opportunity to leave specific personal items to individuals who would particularly enjoy them. Some attorneys may suggest putting these directives in a separate letter of instructions. Regardless, making specific bequests can prevent conflicts over who gets what — which can happen when the will leaves the “contents of the home to be divided equally” among the heirs.

When the will is completed, keep the original where your survivors can easily locate it. Your attorney's office or a waterproof, fireproof file at home may be a wiser choice than a bank safe deposit box, which in many states is sealed upon death of the owner. Consider giving a copy to your executor or let the executor know where it can be accessed.

Finally, keep in mind that you should review your estate plan whenever there is a significant change in family circumstances such as marriage, divorce, birth, adoption, death or a change of your residence to a different state. You should also review it whenever there is a major change in your assets or a change in the law. It may be prudent to review your will annually along with your other essential estate documents.

Powers Of Attorney

With a power of attorney, you can give another individual the legal authority to act on your behalf for a purpose you designate, such as paying your bills, managing your personal affairs or handling your finances. You must be of sound mind and not under mental duress to prepare and execute any of these documents. Unless it is a durable power of attorney, a general power of attorney expires if you become incapacitated. You have several options for authorizing another individual to act on your behalf.

<p>Durable Power Of Attorney For Financial Transactions</p>	<ul style="list-style-type: none"> ● Continues to operate even if you become unable to manage your own personal and financial affairs. ● As long as you are mentally competent, you can revoke a durable power of attorney whenever you wish. ● Consider executing a new durable power of attorney every 3 – 5 years to confirm your intention. ● Take your durable power of attorney to your financial institutions while you remain competent to confirm they would accept it.
<p>Health Care Directive, Living Will Or Directive To Physicians</p>	<ul style="list-style-type: none"> ● Designates medical procedures you want taken if you become too ill to state your preferences. ● You can specify types of treatment you would reject or accept, such as no cardiac resuscitation, but maximum pain relief. ● You determine when your instructions apply, such as when your diagnosis is a terminal condition. ● Consult with your physician to determine your options. ● Leave a copy of your living will with your physician. ● Review your options periodically. Revise your health care directive to reflect changes in your preferences. New medical discoveries could alter your decisions.
<p>Durable Health Care Power Of Attorney Or Health Care Proxy</p>	<ul style="list-style-type: none"> ● Allows you to appoint someone to make health care decisions on your behalf should you become incapacitated. ● Have it prepared by an attorney who specializes in the field to ensure it conforms to your state's laws.

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TO ORDER FREE
COPIES.**

Letter Of Instructions

Unlike wills and powers of attorney, a letter of instructions is not a formal, legal document. Instead, it is a summary of essential information that you prepare as a way of helping your survivors cope during a difficult time.

Keep the letter of instructions updated, since the information is likely to change over time. Store the letter in a safe and readily accessible place and be sure family members know where to find it.

If your wishes include donating your body organs or tissues to transplant facilities, you will need to sign the proper forms to authorize the donation. In some states, you can do this as part of renewing your driver’s license, or simply obtain the form from your local Department of Motor Vehicles. Your physician, local hospital or estate planning attorney should be able to tell you what is required in your state.

CLARIFY YOUR WISHES

Along with providing important information, you can clarify your wishes concerning a variety of personal and financial matters. The information you should include are:

- Instructions on whom to notify and what to do immediately following your death.
- Funeral instructions.
- Directions for handling any important financial matters that may need immediate attention.
- An updated inventory of investments, insurance policies and other important personal financial matters, such as any debts you owe or money owed to you.
- Locations of any valuable documents, such as wills, trusts, deeds, military records and birth or marriage certificates or divorce decrees.

Trusts

Trusts can be beneficial to most individuals, even to those with estates of modest value.

A trust can be a powerful and flexible financial planning tool. A trust is a legal entity that holds property designated by you, the grantor, for the benefit of you or your beneficiaries. The trust agreement names a trustee to manage the specified property according to your instructions. The trustee can be either an individual, an institution, such as a bank or trust company, or a combination of the above as co-trustees.

Trusts can serve a number of purposes.

- Ensure that at your death your property is transferred according to your wishes and in a confidential manner (unlike a will which is probated and becomes a matter of public record).
- Provide for your family's well-being after your death.
- Allow you to have some control over how your assets are used by your heirs after your death.
- Manage your affairs if you are disabled.
- Reduce or eliminate probate time and/or expense.
- Reduce or eliminate federal estate taxes.

Generally, any property of value can be placed in a trust, for example, cash, stocks, bonds, life insurance policies or proceeds, bank accounts, certificates of deposit, income from a business or investment, real estate, benefits from a retirement fund, jewelry or fine art.

**A TRUST IS A
LEGAL ENTITY
THAT HOLDS
PROPERTY DES-
IGNATED BY YOU,
THE GRANTOR,
FOR THE BENEFIT
OF YOU OR YOUR
BENEFICIARIES.**

WHO SHOULD USE A TRUST?

Answer the following questions to determine if a trust could help you.

- Do you want to ensure that your assets are protected and managed according to your wishes should you become incapacitated?
- Would you like to leave your entire estate to your spouse but make bequests to other beneficiaries after your spouse's death?
- Is the total value of your estate now, or its projected value at your death more than the current maximum exclusion amount, for example, \$2.0 million for 2007 and 2008 and \$3.5 million in 2009? This generally includes any life insurance proceeds payable if you are the insured and you own the policy, unless the trust owns the policy.
- If you are remarried, do you want to provide for your current spouse as well as for children from your prior marriage?
- Are you concerned that your beneficiaries will be unable to manage their inheritance or that they may spend it unwisely?

If you answered "Yes" to any of these questions, you may be a candidate for a trust. With professional guidance from tax and legal experts, you may wish to examine how a trust might be utilized in your estate plan.

Types Of Trusts

There are several kinds of trusts depending on the type of beneficiaries, the purpose of the trust, what assets are in the trust, how much power the trustee and beneficiaries have over the use of the trust's assets and how much control the grantor has over the trust.

The most common distinction is between a testamentary trust and a living trust.

A **testamentary trust**, which may be created by a will, takes effect only when the grantor dies and the estate is probated. A change to a testamentary trust may require a change to the will.

A **living**, or inter vivos, **trust** takes effect during your lifetime. Living trusts may be either revocable, meaning the grantor can change or end them at any time, or irrevocable, meaning the trust cannot be changed once it is established or once a certain event occurs (for example, the death of a named person).

Bypass Trust (also called Credit Shelter Trust, Family Trust or Credit Equivalent Bypass Trust): This type of trust takes advantage of federal estate tax law to reduce or eliminate federal estate taxes. It uses a provision of the federal estate tax law, called the unlimited marital deduction, which allows you to leave an unlimited amount of property to your spouse free of federal estate tax. However, certain assets which remain in the surviving spouse's estate will be subject to tax upon the surviving spouse's death. This type of trust will ensure that the applicable exclusion amount is used by the decedent.

Qualified Terminable Interest Property Trust (QTIP Trust): This type of trust can help ensure that, after your death, children from a prior marriage are not disinherited by a subsequent spouse; it can protect your estate in the event your spouse remarries. The grantor places the property in a QTIP trust which still qualifies for the marital deduction. When the grantor dies, the surviving spouse does not inherit the property but receives income from the trust at least annually. At the surviving spouse's death, the value of any assets remaining in the trust are taxed in that individual's estate. Then the assets are distributed to the beneficiaries named in the trust, usually children from the grantor's previous marriage.

Revocable Living Trust: A revocable living trust is often touted as an alternative to a will because a trust usually avoids probate. Probate, the legal validation of your will and your assets, can be a lengthy and expensive process depending on the applicable state law and your situation. However, you should not use a trust as a sole substitute for a will.

**YOU SHOULD NOT
USE A TRUST AS A
SOLE SUBSTITUTE
FOR A WILL.**

An important reason to use a revocable living trust is to manage your assets if you are disabled. This type of trust can be created with yourself as trustee and another individual and/or institution named as successor trustee. You have complete control over the assets in the trust until you become disabled or incapacitated. At that point, the trust becomes irrevocable and your successor trustee takes over using proceeds from the trust for your care and distributing the assets after your death as you directed in the trust agreement. The trust should include a definition of disability or incompetence, such as opinions by two or more physicians. In addition, a living trust could be accompanied by a “pour-over” will, which directs any assets not held in the trust be added to it at your death. Remember that assets held in a revocable living trust are considered part of your gross estate.

ADVANTAGES TO A LIVING TRUST

- It can be more comprehensive than a power of attorney naming someone to act on your behalf should you become incapacitated.
- It will generally be universally accepted at financial institutions, whereas the power of attorney may not.
- You can specify in the trust how and where you wish to be cared for and give specific investment instructions to your trustee. If you become incapacitated without a living trust or durable power of attorney, a court must appoint a conservator or guardian for you — someone you may or may not want to manage your affairs.
- A trust may also be more readily accepted as expressing your wishes — and therefore less subject to challenges — than the actions of a court-appointed guardian or someone acting under your durable power of attorney.
- If you own property in more than one state, a living trust can transfer property directly to your heirs without the expense and delay of multiple probates.
- A living trust can help keep private the details of your estate. It does not usually become part of the public record as a probated will does.

Grantor-Retained Income Trust (GRIT): This irrevocable living trust is designed to reduce gift taxes and remove highly valued assets from your taxable estate. You receive income from assets placed in the trust for a set period; at the end of the term, the assets pass to your heirs. Assets placed in the trust may be your personal residence or income-producing assets. To benefit from this type of trust, you must live past the term of the trust so that the assets are given to the named beneficiaries and removed from your taxable estate.

Spendthrift Trust (also called a Minor's Trust): This type of trust is used if you are concerned your heirs will not be able to manage the estate, either because they are too young or irresponsible. The trust can specify the investment objectives that the trustee must follow. The guidelines for distribution are also established.

Life Insurance Trust: If you are the owner of life insurance on your own life, proceeds from a life insurance policy will generally be included in your taxable estate. If your estate value is more than the current maximum exclusion amount, a life insurance trust often makes sense. An irrevocable living trust is established to own a policy on the grantor's life and the trust is also named beneficiary of the policy. At the grantor's death, the trustee can use the policy proceeds to provide for the beneficiaries, usually the grantor's survivors. For large estates, a life insurance trust funded with a policy in the expected amount of the tax obligation can provide the funds to pay estate taxes.

However, a life insurance transfer from you to the trust must be made at least 3 years before your death. Otherwise, the trust proceeds will be included in your taxable estate. To prevent potential problems resulting from the 3-year rule, a new policy can generally be issued with either the trust or your spouse as owner.

Other Trusts

Generation-Skipping Trust transfers property to second-generation beneficiaries, usually grandchildren, without the trust proceeds becoming part of your children's estates (Generation-Skipping transfer taxes may apply). *Qualified Domestic Trust (QDOT)* is for spouses who are not U.S. citizens. QDOT helps these spouses gain the benefits of deferring the marital deduction. *Charitable Remainder Trust* lets you give an asset, generally one with a low-cost basis, to a charity but generates income from the asset. *Charitable Lead Trust* provides income from an asset to a charity, while you reclaim the principal at the end of a set period of time.

Selecting A Trustee

Selecting the appropriate trustee may be complicated. If the trust is created to benefit your children after your death, your spouse may

SELECTING THE APPROPRIATE TRUSTEE MAY BE COMPLICATED. IF THE TRUST IS CREATED TO BENEFIT YOUR CHILDREN AFTER YOUR DEATH, YOUR SPOUSE MAY BE THE LOGICAL CHOICE.

A COMPETENT TRUSTEE SHOULD BE WILLING TO SERVE AND HAVE NO CONFLICT OF INTEREST WITH THE INTERESTS OF YOUR TRUST AND ITS BENEFICIARIES.

be the logical choice. If the trustee is also a beneficiary of the trust, restrictions can be placed on that trustee's power to use trust assets to his benefit, depending on the type of trust.

No matter whom you name as trustee, you should also name at least one, but preferably several, successor trustees. If your trustee or successor trustee cannot serve and you have not named other successors, the court will name a replacement who you may not want to manage your affairs.

A competent trustee should be willing to serve and have no conflict of interest with the interests of your trust and its beneficiaries. The trustee should have the ability to manage assets effectively and make sound investment decisions.

A friend or family member serving as trustee has the advantage of familiarity with the family and your wishes. However, that individual may not be experienced in making investment decisions and might let emotions or favoritism cloud his judgment.

A professional trustee, such as the trust department of a bank or trust firm, brings impartiality, stability and business and investment knowledge to the role. Conversely, the professional is not as familiar with you or your family as a friend or family member and may charge higher fees. A good solution is often naming co-trustees — one a friend or family member, the other a professional. If you create a living trust, it is a good idea to keep your investment advisers, accountants and bankers involved as you manage the trust. After your death, they will be familiar with your investment goals and can continue to advise your trustees.

Can A Trust Save You Money?

Trusts are valuable estate planning tools that can potentially save money on estate taxes, probate and other expenses. But trusts are not always the least expensive alternative. Cost depends on variables, such as the size and complexity of your estate, estate or inheritance taxes, attorney fees and probate costs.

Trusts usually cost more to create than simple wills. You or your heirs may also have to pay for professional management; this is generally a sliding scale annual fee of your trust's assets, depending on its current market value. Assets placed in the trust must usually be retitled, involving additional time and expense. Some trusts must also file annual federal income tax returns.

In general, estate taxes are due on property you own at the time of your death. State-imposed inheritance taxes may add additional taxes. Because property placed in a revocable trust remains under your control, it is subject to estate taxes. Only property in an irrevocable trust avoids estate tax; however, a transfer of property to an irrevocable trust is usually considered a gift, so gift tax liability may be a consideration.

It is easy to delay estate planning until it is too late. And while it is often difficult to think about providing for your family after your death, it is one of the most important and most loving acts you will ever do for them.

Since estate and inheritance tax laws vary from state to state, creating a trust requires consultation with an attorney and/or estate planner experienced in dealing with the law of estates and trusts. It is also sensible to speak with trust professionals such as those found in banks or accounting firms. They should have the expertise to help you develop a workable estate plan that will not only protect your family, but also help preserve more of your estate for the family's benefit.

**THE PRIMARY
REASON TO
PURCHASE LIFE
INSURANCE IS
TO PROTECT
YOUR FAMILY'S
FINANCIAL
SECURITY.**

Life Insurance

The primary reason to purchase life insurance is to protect your family's financial security. When you name a beneficiary other than your estate, the proceeds of a life insurance policy avoid probate. Life insurance proceeds can then prove very helpful as an immediate source of cash following the insured's death.

Ideally, you should have enough coverage so your beneficiaries could invest the death benefit after paying final expenses and maintain their lifestyle by spending only the interest. By preserving the principal, your beneficiaries will be assured an income.

Life insurance enjoys a tax-favored status as well, another reason for its consideration in an estate plan. The proceeds of an insurance policy paid to a named beneficiary are not subject to federal income taxes (and are generally exempt from state income tax in most states) by the beneficiary.

Who owns the policy can be an important consideration. If you own the policy, the proceeds will be included in the value of your estate. If someone else owns it, the proceeds may not be included in your estate. Therefore, if your estate value is more than the current maximum exclusion amount, you may reduce your federal estate taxes by the way you establish ownership of a life insurance policy.

The USAA Educational Foundation publication, *Life Insurance*, offers more information. See "Resources" on the inside back cover of this publication to order a free copy.

For individuals in the military, the rules governing whether or not payments from the Survivors Benefit Plan are included in the valuation of the gross estate depend on the date of retirement.

If you leave a will, your assets will be distributed as you wish, after your will goes through the probate process. **Probate** is the legal process of “proving” a will is valid under the law in the state of your legal residence. Property you leave through a will is subject to probate. However, some states allow exceptions, so become knowledgeable of your state’s provisions.

In many states, probate has become known for both long delays and high costs in legal and administrative fees. For some individuals, avoiding probate is a major focus of estate planning. Some states have tried to streamline the process for its citizens. Even if there are frustrating delays, probate does serve useful purposes. For example, if your estate contains real estate, probate can provide a legal record of title transfer. If your estate has debts or claims from creditors, probate provides a fairly efficient forum for placing those creditors on notice and settling those claims when compared with the alternative — a lawsuit.

If you wish to avoid probate, generally the only way to do so is to leave your property to your heirs by means other than a will. If the ownership is properly structured, assets you own in certain types of joint ownership, for example, will automatically go to the surviving owner. However, if you and your spouse are joint owners, in most community property states, the surviving spouse may only receive half the increased value of the property, rather than the full increase or “stepped-up basis.”

FORMS OF JOINT OWNERSHIP

Joint tenancy with right of survivorship	Each partner has ownership and property passes directly to the surviving joint tenant(s) when one owner dies. However, when the final owner dies, a will is required to transfer the assets held individually by that owner.
Tenancy by the entirety	This may help protect assets if creditors attempt to collect on an individual debt against the joint ownership. When considering joint ownership with a spouse, you may want to consult an attorney to see if any special laws apply to this form of ownership in your state.
Tenants in common	Refers to ownership that may not necessarily be equal among the joint owners. With this arrangement, each joint owner names a beneficiary in their wills for the percentage each owns. With joint ownership as tenants in common, the assets will go through probate and not directly to the surviving joint owner(s).

Finally, your will does not generally affect assets for which you name a beneficiary, such as certain trusts, IRAs, pensions, life insurance policies and Transfer On Death (TOD) accounts. These assets and other non-testamentary assets, will pass directly to whomever you name and are not subject to probate, unless you name your estate as your beneficiary. Understand that joint bank accounts may be temporarily frozen during probate proceedings. Therefore, the survivor should not plan on receiving this money until the proceedings are completed.

16 PROPERTY OWNERSHIP LAWS

To plan your estate sensibly, you need to estimate its value. On the following page is a work sheet to help you do this. Before you complete the work sheet, you will need to know some basic rules governing property ownership. This way you will be certain of including only property you actually own.

The laws of the state where you maintain legal residence determine what you own. Property ownership rules are very similar from state to state, with the major exception concerning how property is owned by married couples. Most states are called “common law” states, where the property is owned by the spouse whose name appears in the ownership document. In “community property” states spouses typically share ownership of most property acquired during marriage — regardless of how an asset is titled. However, this rule excludes property owned before marriage or through inheritances or gifts received during the marriage. There are many considerations in defining property ownership in a community property state, some of which are listed below.

- Where is the property located?
- Who was the original purchaser?
- Was the original purchaser married at the time of purchase?
- Who manages the property?
- Was there a divorce involved?
- How was the property acquired (for example, purchased item or gift)?

When completing the inventory work sheet on the next page, keep in mind which ownership laws pertain to you. If you live in a community property state or are confused about property ownership, consult with an attorney.

CALCULATING THE VALUE OF YOUR ESTATE 17

Preparing a written inventory and valuation of your property is essential for thorough estate planning. After you have completed the inventory work sheet in Part I, you will have your approximate total gross estate value. Part II itemizes other deductions that will affect the calculation of your final estate value. Then you can determine the approximate value of your taxable estate in Part III.

Part I

INVENTORY WORK SHEET

A. Assets

- | | | |
|-----|---|-------|
| 1. | Cash on hand, savings and checking accounts
(current market value) | _____ |
| 2. | Mutual funds, stocks, bonds, CDs, other investments
(current market value) | _____ |
| 3. | Your home (current market value) | _____ |
| 4. | Other real estate (current market value) | _____ |
| 5. | Individually owned personal property, vehicles, jewelry,
collectibles (current market value) | _____ |
| 6. | Your share of jointly held property (current market value) | _____ |
| 7. | Net equity in your own business (current market value) | _____ |
| 8. | Life insurance proceeds | _____ |
| 9. | IRAs, retirement plans, annuities (current market value) | _____ |
| 10. | Total assets | _____ |

Current market value is the value of an investment at a certain point in time.

B. Debts

- | | | |
|----|---|-------|
| 1. | Additional expenses (for example, credit cards, utility expenses) | _____ |
| 2. | Mortgage loans | _____ |
| 3. | Other consumer loans | _____ |
| 4. | Income tax and property tax | _____ |
| 5. | Total debts | _____ |

C. Net value or total gross estate value

- | | | |
|----|--|-------|
| 1. | Total assets (line A10) | _____ |
| 2. | Total debts (line B5) | _____ |
| 3. | Net value (line C1 minus line C2) | _____ |

Part II

DEDUCTIONS		
A. Estate settlement costs		
1.	Administrative expenses (attorney, accountant and executor fees, probate fee, appraisals)	_____
2.	Funeral expenses	_____
3.	Total estate settlement costs	_____
B. Other deductions from your estate		
1.	Marital deduction	_____
2.	Charitable bequests	_____
3.	Total other deductions	_____
C.	Total (add part II lines A3 and B3)	_____

Part III

VALUE OF YOUR TAXABLE ESTATE		
1.	Net value (part I C3)	_____
2.	Total deductions (part II line C)	_____
3.	Adjusted taxable estate (subtract line 2 from line 1)	_____*

* If this amount is greater than the amount at which the federal estate tax is imposed, you may wish to seek professional advice for ways to reduce your estate taxes.

CONSULT WITH AN ESTATE PLANNER OR FINANCIAL PLANNING PROFESSIONAL TO DETERMINE THE VALUE OF YOUR TAXABLE ESTATE.

If you have a taxable estate over the current maximum exclusion amount, you will be concerned with minimizing taxes on the taxable portion of your estate. With the tax deductions, it might look as though the easiest way to avoid the federal estate tax is simply to give away everything but the maximum exclusion amount at the time of your passing. However, the government has a different view.

To give a gift (to anyone other than your spouse), its value is generally added to the property you hold at death in calculating your estate tax liability. Fortunately, there is an important exception to this rule that is crucial in estate planning, the gift tax applicable exclusion amount. For 2007, you have a lifetime gift tax applicable exclusion amount of \$1.0 million. Also, you can make annual gifts of up to \$12,000 to as many individuals as you wish without triggering the gift tax. A married couple filing jointly can give up to \$24,000 to an unlimited number of individuals each year, even if the gift comes from only one of the spouses' funds. Such gifts are a way of reducing your gross estate. These gifts also ensure that the property goes to the individual that you want to receive it.

Taxes are not the only consideration in estate planning. Be sure not to give away assets during your lifetime you might need such as reserves necessary to fund emergencies and retirement.

COMPARING PROPERTY TRANSFER METHODS

Method	Advantages	Disadvantages
Will	Simple to prepare; fees relatively low. Primary way to name a guardian for minor children.	Involves time and expense of probate; becomes public record.
Revocable Living Trust	Avoids probate; offers great flexibility in providing for heirs; generally remains private.	Higher attorney's fees to create; expense re-titling all property to be put into trust; may require annual fees for professional management of trust's assets. May not save estate taxes.
Testamentary Trust	Protects children's inheritances. Grantor can retain some control of assets.	Assets must first go through probate (involves time and expense). Annual cost to administer. May require annual federal income tax return.
Irrevocable Trust (Life Insurance Trust)	Removes life insurance proceeds from insured's taxable estate.	Cannot name self as trustee. Cannot have any living ownership interest in policy. If policy initially issued with insured as owner, must create trust 3 years before death (for certain tax benefits). May require annual federal income tax return in certain instances.
Joint Tenancy With Right Of Survivorship	Simplest way to avoid probate on first person's death, because property automatically passes to surviving joint tenant(s).	Surviving spouse loses half the "stepped-up basis" in a community property state. Can complicate use of bypass trust.

20 BUSINESS OWNERS' CONSIDERATIONS

QUESTIONS TO ASK

- Who will operate the business after your death?
- Will your survivors have the necessary expertise and the interest to continue running the business?

If you own an interest in a business, your estate planning can become complex.

Without proper planning, a business can get stalled in the probate process, creating potentially significant problems for your heirs. They may have to seek a probate court's approval for business decisions during the months the estate is being probated.

If your beneficiaries want to continue the business and are able to run it, you can arrange for a relatively simple transfer. If they are not interested in continuing the business, you will need to arrange to either sell the business or have someone else manage it.

Many business owners use buy-sell agreements to ensure a quick sale for their heirs. A buy-sell agreement is an understanding reached among owners of the same business to buy and sell their respective interests in the corporation upon their death. Life insurance is used to ensure that enough money will be available for the buyer to "buy out" the seller (generally the surviving spouse or family members). To ensure the continuation of a business, many business owners purchase key person insurance. This type of insurance helps protect a business from financial loss due to the death of a key employee, such as the business owner or a long-time employee whose talents are critical to the company's success.

Once you determine whether or not to continue the business and then who will manage it, you can consider how best to transfer the ownership. Consider alternatives avoiding probate in order to insure that the business continues uninterrupted. For help in estate planning for small businesses, consult an estate planner with strong business and tax experience.

Getting Help

If you need only a simple will or are considering a complicated trust, seeking professional advice is essential. Trusts and alternatives for business continuation especially require an experienced estate planner. To find one, ask friends, your accountant or the trust officer at your bank, or contact the local bar association. Look for someone with established industry credentials — professional designations such as Chartered Financial Consultant (ChFC®), CERTIFIED FINANCIAL PLANNER™ (CFP®), Certified Life Underwriter (CLU®), a master's degree in financial planning or an attorney that is board-certified in trust and estate and/or tax law.

It is also important to feel comfortable and confident in your professional's abilities. You will be sharing with this individual details of your finances and your plans for the future of your loved ones.

RESOURCES



The USAA Educational Foundation offers the following publications.

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